

PLDT Inc.
Form 20-F
April 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

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

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

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 — Date of event requiring this shell company report _____
Commission file number 1-03006

PLDT Inc.

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph;
Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines

(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

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

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

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

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

None

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

None

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

As at December 31, 2017:

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (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.

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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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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

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

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

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

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

In this annual report, each reference to:

- ARPU means average revenue per user;
- BIR means Bureau of Internal Revenue;
- BSP means Bangko Sentral ng Pilipinas;
- CMTS means cellular mobile telephone system;
- CPCN means Certificate of Public Convenience and Necessity;
- DFON means domestic fiber optic network;
- 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, as issued by the International Accounting Standards Board;
- IGF means international gateway facility;
- IP means internet protocol;
- IT means information technology;
- LEC means local exchange carrier;
- LTE means long-term evolution;
- MVNO means mobile virtual network operations;
- NGN means Next Generation Network;
- NTC means the National Telecommunications Commission of the Philippines;

NTT means Nippon Telegraph and Telephone Corporation;

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

FORWARD-LOOKING STATEMENTS

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Performance Indicators

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

Adjusted EBITDA

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

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit

separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and nonrecurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability

may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2017, 2016 and 2015 is presented in Item 5. “Operating and Financial Review and Prospects – Management’s Financial Review” and Note 4 – Operating Segment Information to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Selected Financial Data

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

	2017 ⁽¹⁾	2017	2016	2015	2014	2013
	(in millions, except earnings per common share amounts,					
	weighted average number of common shares, ratio of earnings to fixed charges					
	and dividends declared per common share amounts)					
Statements of Operations Data:						
Revenues	US\$					
	3,201	Php 159,926	Php 165,262	Php 171,103	Php 170,835	Php 168,211
Service revenues	3,026	151,165	157,210	162,930	164,943	163,932
Non-service revenues	175	8,761	8,052	8,173	5,892	4,279
Expenses	3,011	150,415	140,559	139,268	130,457	125,514
Net income for the year	270	13,466	20,162	22,075	34,090	35,453
Continuing operations	270	13,466	20,162	22,075	34,090	33,384
Discontinued operations	—	—	—	—	—	2,069
Earnings per common share for the year						
attributable to equity holders of PLDT						
Basic	1.23	61.61	92.33	101.85	157.51	163.67
Diluted	1.23	61.61	92.33	101.85	157.51	163.67
Earnings per common share from continuing						
operations for the year attributable to equity						
holders of PLDT						
Basic	1.23	61.61	92.33	101.85	157.51	154.09
Diluted	1.23	61.61	92.33	101.85	157.51	154.09

Balance Sheets Data						
Cash and cash equivalents	659	32,905	38,722	46,455	26,659	31,905
Total assets	9,196	459,444	475,119	455,095	436,295	399,638
Net assets	2,225	111,183	108,537	113,898	134,668	137,326
Total long-term debt - net of current portion	3,156	157,654	151,759	143,982	115,399	88,924
Total debt ⁽²⁾	3,455	172,611	185,032	160,892	130,123	104,090
Total liabilities	6,971	348,261	366,582	341,197	301,627	262,312
Total equity attributable to equity holders of						
PLDT	2,139	106,842	108,175	113,608	134,364	137,147
Weighted average number of common shares						
for the year (in thousands)	216,056	216,056	216,056	216,056	216,056	216,056
Other Data:						
Depreciation and amortization	1,039	51,915	34,455	31,519	31,379	30,304
Ratio of earnings to fixed charges ⁽³⁾	2.3x	2.3x	3.1x	4.0x	6.4x	5.7x
Net cash provided by operating activities	1,123	56,114	48,976	69,744	66,015	73,763
Net cash used in investing activities	(422)	(21,060)	(41,982)	(39,238)	(51,686)	(21,045)
Net cash used in financing activities	(807)	(40,319)	(15,341)	(11,385)	(19,897)	(59,813)
Dividends declared to common shareholders	329	16,421	22,902	32,841	39,970	37,809
Dividends declared per common share	1.52	76.00	106.00	152.00	185.00	175.00

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

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

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

Capital Stock

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

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

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

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

Dividends Declared

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

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

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

Dividends Paid

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

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

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

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

Exchange Rates

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

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

	Year Ended December 31,			
	Period	End	Average ⁽¹⁾	High ⁽²⁾ Low ⁽³⁾
2013	Php 44.41	Php 42.66	Php 40.57	Php 44.66
2014	44.74	44.45	43.64	44.87
2015	47.12	45.62	44.08	47.44
2016	49.77	47.67	45.92	49.98
2017	49.96	50.41	49.40	51.80
2018 (through March 26, 2018)	52.29	51.42	49.77	52.34

Source: Philippine Dealing System Reference Rate

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

⁽²⁾Highest exchange rate for the period.

⁽³⁾Lowest exchange rate for the period.

	Month			
	Period	End	Average ⁽¹⁾	High ⁽²⁾ Low ⁽³⁾
2017				
September	Php 50.83	Php 50.99	Php 50.63	Php 51.24
October	51.69	51.39	50.95	51.80
November	50.35	50.97	50.35	51.49
December	49.96	50.37	49.92	50.74
2018				
January	51.34	50.57	49.77	51.42

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February	52.07	51.82	51.21	52.35
March (through March 26, 2018)	52.29	52.06	51.86	52.34

Source: Philippine Dealing System Reference Rate

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

(2) Highest exchange rate for the month.

(3) Lowest exchange rate for the month.

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

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

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

Risks Relating to Us

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

The rapid change of technology and proliferation of OTT services, also known as VoIP services (such as Facebook, Skype, Viber, WhatsApp and other similar services), have disrupted our business. Due to the adoption of new technologies, changing customer habits, and the growing popularity of these new OTT services, our traditional revenue sources, such as short messaging service, or SMS, voice and international calling services, have declined, and we expect this trend to continue.

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

Our capital costs could increase as we phase out outdated and unprofitable technologies and invest in new ones. We may not be able to accurately predict technological trends or the success of new services in the market. In addition,

there could be legal or regulatory restraints on our introduction of new services. If our services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected. We can neither assure you that we would be able to adopt or successfully implement new technologies and services nor assure you that future technological changes will not adversely affect our business, results of operations, financial condition and prospects.

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

Increasing competition among existing telecommunications services providers, as well as competition from new competitors, could materially and adversely affect our business and prospects by, among other factors, forcing us to lower our tariffs, reducing or reversing the growth of our customer base and reducing usage of our services. Competition in the mobile telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference, while competition in the fixed line side is beginning to escalate as well. Vital capacity and coverage expansion may continue to increase our capital expenditures. Recently, operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal mobile competitor, Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice, SMS, and data offers. It has also expressed interest to compete more actively in the fixed line segment, and has started to offer fixed line products and services.

In 2017, the Philippine government announced its intentions to introduce in the Philippines telecommunications market a third major company. The process for the establishment of this third major player is currently underway, and is heavily supported by the Philippine government. Media reports indicate that established international telecommunications companies are part of the shortlist. A third major player will likely adversely threaten our market share. Furthermore we believe that the third player, when it enters the market, may put forth aggressive offers to lure customers away from us and Globe. To maintain our competitive posture, we may need to match those offers and offer other incentives to prevent existing customers from switching. A loss of market share and increased costs to maintain our competitive posture will adversely affect our business, financial condition and results of operations.

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

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

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

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

In particular, as part of our extensive capital expenditures program to overhaul our fixed and wireless networks infrastructure and our IT systems, we have entered into agreements with Amdocs and Huawei to upgrade and modernize a significant portion of our IT infrastructure. We cannot guarantee that we will be able to accomplish this transformation in a timely fashion, or at all, or in the manner intended. Furthermore, we cannot guarantee that such transformation will not result in service disruptions, network outages or encounter other issues that may detrimentally affect consumer experience. This may adversely affect our business, financial condition and results of operations.

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

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

The majority of our total revenues are currently derived from the provision of mobile services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. The mobile penetration rate in the country, however, has already reached approximately 118% as at December 31, 2017, and thus the industry may well be considered mature. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced mobile devices, the price levels of mobile handsets, consumer tastes and preferences, and the amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for mobile services or otherwise causing the Philippine mobile telecommunications industry to stop growing or reducing the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

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

Failure to comply with the foreign ownership restrictions

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

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

Failure to renew CPCNs

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

Failure to comply with R.A. 7925

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

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

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

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

The NTC regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or to the reduction in our total revenues or profitability. The NTC could adopt changes to the regulations or implement additional guidelines governing our

interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers. The occurrence of any of these changes could materially reduce our revenues and profitability.

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

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

In particular, PLDT was engaged in litigation with the Philippine Competition Commission, or the PCC, relating to PLDT's investments in VTI, Bow Arken and Brightshare, or the SMC Transactions. Although the Court of Appeals, or CA, among other things, compelled the PCC to recognize that the SMC Transactions as deemed approved by operation of law, the CA did clarify that the deemed approved status of the SMC Transactions does not, however, remove the power of PCC to conduct post-acquisition review to ensure that no anti-competitive conduct is committed by the parties. Any future expansion in our services, particularly in our mobile services, could subject us to additional conditions in the granting of our provisional authorities by the NTC and to increased regulatory scrutiny, which could harm our reputation and business, and which could have a material adverse effect on our growth and prospects. In addition, the occurrence of any such event could impose substantial costs or cause interruptions or considerable delays in the provision, development or expansion of our services. See Note 10 – Investments in Associates and Joint Ventures – Notice of Transaction filed with the Philippine Competition Commission, or PCC to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.

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

Legislation such as R.A. 10173 or the Philippine Data Privacy Act of 2012, or the Privacy Act, its Implementing Rules and Regulations and other related issuances of the Philippine SEC recognizes as a policy of the Philippine government the protection of the fundamental human right of privacy, while ensuring the free flow of information to promote innovation and growth. The Privacy Act provides for the protection of personal data of Philippine data subjects, which are subjected to processing conducted by any natural and juridical person in the government or private

sector. The Philippine SEC has been actively enforcing the implementation and compliance of entities covered by the Privacy Act since the release of its Rules in 2016.

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

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

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

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

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

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

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

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

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

Our competitiveness may decline if we cannot obtain the necessary or optimal allocation of spectrum from the Philippine government. If the Philippine government does not fairly allocate spectrum to wireless providers in general, revoke spectrum previously granted to us, or if we cannot acquire needed spectrum or deploy the services

customers desire on a timely basis without burdensome conditions or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

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

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

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

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

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to influence or exercise control over the acquired company;

- the compatibility of the economic, business or other strategic objectives and goals of the acquired company with those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

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

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

Given the nature of our business and our foray into the digital business, we have made investments in various start-up companies. For example, in 2014, we invested in Rocket Internet SE (formerly Rocket Internet AG), or Rocket, to drive the development of online and mobile payment solutions, the fair value of which has declined significantly since our investment. Due to the significant decline in fair value of our investment in Rocket Internet, we recognized a series of impairments that amount to, in the aggregate, Php11,045 million, since then. See Item 5. “Operating and Financial Review and Prospects – Critical Accounting Policies” and Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for more information. Credit ratings and market values of this investment and similar investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, foreign exchange rates, or other factors. As a result, our investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results.

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

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

- shortages of equipment, materials and labor;
- delays in issuance of national and local government building permits;
- work stoppages and labor disputes;
- interruptions resulting from man-made events (e.g., sabotage), inclement weather and other natural disasters;
- rapid technological obsolescence

- inability of vendors to deliver on commitments
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

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

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

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

health risk, which could result in a lower number of customers, reduced usage per customer or even potential consumer liability.

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

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

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

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

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

Theft of telecommunication cables, major equipment failures or natural disasters, including severe weather, terrorist acts or other similar or related contingencies could adversely affect our wireline and wireless networks, including

telephone switching offices, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our customer account support and information systems, or employee and business records, and could have a material adverse effect on our operations.

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

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php40,299 million, Php42,825 million and Php43,175 million for the years ended December 31, 2017, 2016 and 2015, respectively. We currently estimate that our consolidated capital expenditures in 2018 will be approximately Php58 billion.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, some of which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us, or at all. If we cannot complete our development programs or other capital projects on time due to our failure to obtain the required financing, our growth, results of operations, financial condition and prospects could be materially and adversely affected.

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

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

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

The Philippine peso has been subject to significant depreciation in recent years with the Philippine peso depreciated by approximately 21% from a high of Php41.08 for year end 2012 to Php49.96 as at December 31, 2017 and further depreciated to Php52.29 as at March 26, 2018. We cannot assure you that the Philippine peso will not depreciate further and be subject to significant fluctuations going forward, due to a range of factors, including:

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

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

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

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

The principal factors that could negatively affect our ability to comply with the financial ratio covenants and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Of our total consolidated debts, approximately 20% and 31% were denominated in U.S. dollars as at December 31, 2017 and 2016, respectively. Considering our consolidated hedges and U.S. dollar cash balances allocated for debt, the unhedged portion of the consolidated debt amounts were approximately 8% in each of December 31, 2017 and 2016, and therefore these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso relative to the U.S. dollar.

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

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

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

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

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

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

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

As at January 31, 2018, the First Pacific Group and its Philippine affiliates, NTT Communications and NTT DOCOMO, and JG Summit Holdings, Inc. and its affiliates, or JG Summit Group, collectively, beneficially own approximately 53.93% in PLDT's outstanding common stock (representing 31.83% of our overall voting stock). See Item 7. "Major Shareholders and Related Party Transactions" for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT, and the rights granted pursuant to the Cooperation Agreement, Strategic Agreement and the Shareholders Agreement.

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

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

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

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

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

As at December 31, 2017, PLDT has three employee unions, representing in the aggregate 5,328, or 30%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our

operating expenses and adversely affect our profitability. For instance, PLDT experienced a significant charge from its manpower rightsizing program in 2017, mainly incurred in the fixed-line business. See Note 5 – Income and Expenses – Compensation and Employee Benefits to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”. Each of our different employee groups may require separate collective bargaining agreements. If any group of our employees and PLDT are unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

Additionally, in 2017, PLDT received a Compliance Order from the Department of Labor and Employment of the Philippines, or DOLE, on July 3, 2017 in connection with the non-payment of statutorily required monetary benefits, including the 13th month salary, to certain contract workers. The Compliance Order held the PLDT Group liable for Php78.6 million. We cannot guarantee that PLDT or its subsidiaries will not be subject to similar proceedings or other labor-related regulatory activities, the results of which may have an adverse reputational and/or financial impact. See Note 27 – Provisions and Contingencies to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

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

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

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

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

For more information on PLDT’s legal proceedings, see Item 8. “Financial Information – Legal Proceedings” and Note 27 – Provisions and Contingencies to the accompanying consolidated financial statements in Item 18. “Financial Statements.”

While PLDT believes the positions it has taken in these cases are legally valid, the final results of these cases may prove to be different from its expectations. In addition, there is no assurance that PLDT will not be involved in future litigation or other disputes, the results of which may materially and adversely impact its business and financial conditions.

Risks Relating to the Philippines

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

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

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

We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not

materially and adversely impact the current regulatory environment for the telecommunications and other companies.

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

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

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

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

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

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

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

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

Item 4. Information on the Company

Overview

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

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

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

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

Historical Background and Development

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

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

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

Recent Developments

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

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

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

Agreement between PLDT and Smart and Amdocs

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

Transfer of Hastings PDRs to PLDT Beneficial Trust Fund

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

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

On December 15, 2017, PLDT and Globe each subscribed to 600,000 new preferred shares of the authorized capital stock of VTI, at a subscription price of Php5,000 per subscribed share (inclusive of a premium over par of Php4,000 per subscribed share), for a total subscription price of Php3,000 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php10 million in cash for the subscribed shares upon

execution of the agreement. The remaining balance of the subscription price was paid via conversion of advances amounting to Php2,990 million as at December 31, 2017.

Transfer of iCommerce to PLDT Online

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

Divestment of CURE

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

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

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

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

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

PLDT’s investment in Trans-Pacific cable system

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

Transformation Incentive Plan

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

Transfer of SBI’s Home Broadband Subscription Assets to PLDT

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

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

Subscription of PLDT Online in iflix Convertible Note

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

Sale of PCEV's Remaining Beacon Shares to MPIC

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

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

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

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

through its indirect subsidiary, PGIC.

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

Business Overview

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

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

Wireless

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

We provide (a) mobile services, (b) home broadband services, (c) digital platforms and mobile financial services, and (d) MVNO and other services, through our wireless business, which contributed approximately 95%, 3% and

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

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

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

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

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

Fixed Line

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

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

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

Others

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

Capital Expenditures and Divestitures

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

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

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

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

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

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

See Item 4. “Recent Developments” for further information.

Organization

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

Strengths

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

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

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

Diversified Revenue Sources. We derive our revenues from two of our business segments, namely, Wireless and Fixed Line, with each contributing 54% and 46%, respectively, to our total revenues in 2017, 59% and 41%, respectively, in 2016, and 63% and 37%, respectively, in 2015. Revenue sources of our wireless business include mobile (voice, SMS, mobile data, and inbound roaming

and other mobile services), home broadband, digital platforms and mobile financial services, and MVNO and other services. Revenues from mobile voice and SMS have been declining over the past several years, but this decline has been partly mitigated by the increase in revenues from data services, particularly mobile internet and mobile broadband services. Our fixed line business derives service revenues from voice (local exchange, international and domestic services), data and miscellaneous services. Revenues from international and domestic fixed line services have been declining over the past several years due to pressures on traditional fixed line voice revenues as a result of the popularity of OTT service providers, but have been offset by the significant revenue contributions from our home broadband, corporate data and leased lines, and data center and IT services, as well as higher revenues from our local exchange service.

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

Innovative Products and Services. Voyager Innovations, Inc. or Voyager, (including through its affiliates PayMaya Philippines, 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, particularly mobile internet. Consistent with our strategy of introducing innovative products and services using advanced technology, we continue to launch various products and services in the data and broadband market that deliver quality of experience according to different market needs, including data centers and cloud-related services. We will also accelerate the deployment of new base stations to boost quality and coverage, and accommodate technology bands under the co-use arrangements we entered into with BellTel, one of VTI's subsidiaries.

• Provide the customer a superior data experience. We are in the process of executing our digital transformation strategy through our wireless business focusing on: (i) investing in network infrastructure to improve 3G and 4G coverage and capacity, as well as network resilience; (ii) upgrading service development platforms to improve customers' ease-of-use, billing systems,

customer interface; and (iii) beefing up our content portfolio to include entertainment, peace-of-mind/convenience, and games, among others.

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

Business

Wireless

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

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

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

Mobile Services

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

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

Reinforcing our Data Network

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

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

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

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

Driving Mobile Data Usage and Monetization

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

Smart Prepaid

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

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

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

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

TNT

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

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

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

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

Smart Postpaid

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

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

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

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

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

Smart Bro

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

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

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

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

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

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

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

Sun

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

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

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

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

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

Managing Voice and SMS revenues

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

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

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

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

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

Rates

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

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

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

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

Smart also offers unlimited text with voice and data allocation under its various brands in order to be competitive. These plans include unlimited text to all networks, call minutes and high data allocation with monthly service

fees ranging from Php399 to Php2,999 for Smart Postpaid and from Php3,500 to Php8,000 for Smart Infinity. Additional charges at different rates for usage in excess of the allocated amounts, depending on the monthly plan.

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

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

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

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

Distribution and Discounts

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

Smart's and Sun's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became more affordable and accessible to subscribers.

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

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

Home Broadband Service

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

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

Rates

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

Digital Platforms and Mobile Financial Services

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

Digital Financial Services

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

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

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

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

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

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

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

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

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

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

Digital Commerce

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

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

Voyager eCommerce Marketplace Platform provides enterprises with custom eCommerce presence.

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

Access and Customer Engagement

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

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

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

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

VYGR provides digital marketing services to customers.

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

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

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

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

Fixed Line

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

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

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

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

Voice Services

Local Exchange

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

Rates

Basic monthly charges for our local exchange service vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,100 for residential customers and Php1,500 for business

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

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

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

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

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

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

International Service

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

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

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

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

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

Rates

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

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

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

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

Domestic Service

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

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

Rates

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

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

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

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

Data Services

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

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

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

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

Home Broadband

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

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

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

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

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

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

PLDT HOME has always been at the forefront of providing subscribers with diverse and compelling bundled content through its partnerships with globally renowned content providers. PLDT introduced Roku-Powered™ TVolution, an all-in-one, plug-and-play device that brings HD TV channels and Subscription Video-on-Demand

services in one powerful box. With this device, subscribers get to conveniently access content from global entertainment partners including Southeast Asia's internet TV service provider iflix, U.S.-based internet TV pioneer Netflix, Philippine's pay TV service provider Cignal Digital TV, Fox International Channels, ABS-CBN's iWant TV, an OTT content platform in the Philippines, and over 100 free streaming channels.

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

Corporate Data and ICT

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

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

ICT services include data centers, which provide colocation and related connectivity services, managed server hosting, disaster recovery and business continuity services, managed security services, cloud services, big data services and various managed IT solutions. On July 28, 2016, ePLDT inaugurated VITRO Makati, ePLDT's first TIA-942 Rated 3 certified data center and the country's biggest data center with 3,600 racks at full capacity located in one of the country's premiere business districts. On February 13, 2017, ePLDT inaugurated the first data center in Mindanao. VITRO Davao has a total capacity of 44 racks that can serve both primary and back-up requirements of enterprises based in Mindanao. Four days after the launch of VITRO Davao, ePLDT also launched the biggest data center outside of Metro Manila. VITRO Clark is the first purpose-built data center North of Manila. This is the second TIA-942 Rated 3 certified data center of ePLDT, and another Nexcenter certified facility. It has a total capacity of 1,500 racks. The ePLDT Group has a total of 8,341 rack capacity in nine locations covering Metro Manila, Subic,

Clark, Cebu and Davao. ePLDT, PLDT's digital business arm, manages and operates the six VITRO™ data center facilities located in Pasig, Makati, Subic, Clark, Cebu and Davao, with a total of 14,336 square meters of server farm space (or 7,146 rack capacity), and IPC, ePLDT's Cloud subsidiary, manages and operates the three VITRO data center facilities located in Makati, Taguig and Sucat, with a total of 2,640 square meters of server farm space (or 1,195 rack capacity), to accommodate enterprise customers' IT infrastructure hosting requirements. The facilities boast of best-in-class data center amenities in fully resilient configuration, supported by requisite operational certification attesting to compliance to global and industry recognized standards.

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

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

Miscellaneous

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

Infrastructure

Wireless Network Infrastructure

Mobile

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

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

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

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

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

Home Broadband

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

Fixed Line Network Infrastructure

Domestic

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

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

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

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

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

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

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

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

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

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

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

International

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

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

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

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

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

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

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

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

PLDT's international automatic optical transport switching system continues to provide effective redundancy in case of contingencies, as was proved during the multiple cable breaks that occurred in 2017 when premium traffic to Hong Kong, Japan, Singapore and the continental U.S. was automatically restored. To extend this redundancy domestically,

this system was extended to the main islands in the Philippines: Luzon (Makati), Visayas (Cebu) and Mindanao (Davao) and upgraded in 2017 to ensure that the Company's premium enterprise clients are provided with redundancy and thereby, minimizing service disruptions. In August 2017, disruptions occurred due to the strong typhoon in Hong Kong. Cable ships were mobilized for the repair, and remediation measures included cable rerouting and capacity augmentation.

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

Interconnection Agreements

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

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

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

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

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

Licenses and Regulations

Licenses

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

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

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

A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services authorized under its franchise. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18

months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

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

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

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

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

Material Effects of Regulation on our Business

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

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

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

On July 3, 2009, the NTC issued MC No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart and DMPI have been implementing the new validity period of prepaid loads since July 19, 2009.

On July 7, 2009, the NTC amended its rules on broadcast messaging in MC No. 04-07-2009, which prohibits content and/or information providers from initiating push messages. It further requires that requests for services must be initiated by the subscribers and not forced upon them by the public telecommunications entities and/or content providers and mandates that subscribers be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.

On July 23, 2009, the NTC issued MC No. 05-07-2009 mandating mobile operators, including Smart, to charge calls on a maximum six-second per pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. Smart and CURE have filed petitions with the Supreme Court challenging the implementation of this regulation which remains pending. The six-second per pulse billing scheme is expected to have a negative impact on Smart's revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.

On February 18, 2011, the NTC issued MC No. 01-02-2011 which among others required mobile phone providers like Smart and DMPI to make internet access through mobile phones optional; inform their subscribers of charges for internet access through mobile phones; and remind subscribers through SMS if at least 50% of credit limit has already been consumed.

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On October 24, 2011, the NTC issued MC No. 02-10-2011 which mandates that interconnection charge for SMS between two separate networks shall not be higher than Php0.15 per SMS. Accordingly, Smart amended its interconnection agreements with other SMS providers in compliance with the circular. However, the NTC subsequently directed Smart to reduce the retail price of users sending regular SMS to users on other networks from Php1.00 to Php0.80 or less; refund or reimburse its subscribers for the excess Php0.20 per off-net SMS; pay a fine of Php200 per day from December 1, 2011 until the date of compliance with the decision; and submit documents, records and reports pertaining to SMS sent to other networks. Smart challenged this decision and the resolution before the CA. On June 27, 2016, the CA rendered a decision setting aside the Decision dated November 20, 2012 and Resolution dated May 7, 2014 of the NTC for being bereft of legal basis and for having been rendered in utter disregard of the requirements of due process. The CA further permanently enjoined the NTC and any and all of its agents from implementing the MC No. 02-10-2011. The NTC and Intervenor Bayan Muna filed their respective Motions for Reconsideration which were denied by the CA. The NTC and Intervenor Bayan Muna filed separate Petitions for Certiorari with the Supreme Court which remain pending.

- On July 15, 2011, the NTC issued MC No. 7-7-2011 which requires broadband service providers to specify the minimum broadband/internet connection speed and service reliability and the service rates in advertisements, flyers, brochures and service agreements and also sets the minimum service reliability of broadband service to 80%.

On December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge between LEC and CMTS to Php2.50 per minute from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC. PLDT and Smart

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

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

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchange of its shares representing at least 30% of its aggregate common shares within five years from: (a) the date the law became effective; or (b) the entity's commencement of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. On May 19, 2017, R.A. No. 10926 took effect which extended the Legislative Franchise of Smart. The law contains a provision which exempts Smart from the requirement of listing of shares if a grantee is wholly-owned by a publicly-listed company with at least 30% of whose authorized capital stock is publicly listed.

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

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

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

Regulatory Tariffs

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

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

On November 24, 2016, the NTC issued MC No. 09-11-2016 entitled Interconnection Charge for Voice Services mandating that interconnection charge for voice calls between two separate networks shall not be higher than Php2.50 per minute. The MC likewise directed that existing interconnection agreements shall be amended to

comply with this MC within 10 days from the effectivity of this MC. The new agreed reduced interconnection charges shall be effective not later than January 1, 2017 to give sufficient time for the necessary adjustment in the operators' respective billing systems.

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

Competition

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

Mobile Service

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

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

In recent years, the prevalence of OTT services, such as social media, instant messaging and internet telephone, also known as VoIP services, has greatly affected our legacy revenues namely voice and SMS. We are also facing growing competition from providers offering services using alternative wireless technologies and IP-based networks, including efforts by the Philippine government to roll-out its free WiFi services to various municipalities in the country.

Voice

Local Exchange

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

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

International

There are 10 licensed IGF operators in the country, including us. While we still maintain a leadership position in this highly competitive service segment of the industry, our market share in recent years has declined as a result of: (1) competition from other IGF operators; (2) migration from fixed to direct mobile calling; and (3) the popularity of alternative and cheaper modes of communication such as e-mail, instant messaging, social-networking (such as Facebook, Twitter and Instagram), including “free services” over the internet (such as Skype,

Viber, Line, Facebook Messenger, GoogleTalk and WhatsApp, and similar services), and the establishment of virtual private networks for several corporate entities, which have further heightened competition.

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

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

Domestic

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

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

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

Data Services

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

Environmental Matters

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

The Company takes pride in the following accomplishments:

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

- Regular cleaning, siphoning and desludging of wastewater treatment facilities.

• Hauling and treatment of generated hazardous wastes in various facilities through engagement with DENR-accredited third-parties.

• Reduction of greenhouse gas emission attributed to purchased electricity consumption.

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

Intellectual Property Rights

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

Properties

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

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

• 70% consisted of cable, wire and mobile facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and mobile facilities;

• 13% consisted of central office equipment, including IGFs, pure national toll exchanges and combined local and toll exchanges;

9% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;

3% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and

5% consisted of other work equipment.

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

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

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

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

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

Overview

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

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

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

Management's Financial Review

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

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

	December 31,		
	2017	2016	2015
	(Pesos in millions)		
Adjusted EBITDA	66,174	61,161	70,218
Add (deduct) adjustments:			

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

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

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

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

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

Consolidated EPS attributable to common equity

holders of PLDT	61.61	61.61	92.33	92.33	101.85	101.85
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Critical Accounting Policies

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

Judgments

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

Determination of functional currency

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

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

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

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

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

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

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

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

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

Leases

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

Accounting for investments in Phunware and AppCard

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

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

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

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

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

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

Impairment of available-for-sale equity investments

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

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

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

Estimates and Assumptions

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

Impairment of non-financial assets

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

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

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

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

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

Estimating useful lives of property and equipment

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

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

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

Estimating useful lives of intangible assets with finite lives

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

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

Business combinations

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

Recognition of deferred income tax assets

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

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

Estimating allowance for doubtful accounts

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

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristics, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on

historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

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

Estimating pension benefit costs and other employee benefits

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

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

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company’s strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. The TIP also contemplates the second phase of incentive compensation for the years 2020 and 2021, the details of which are not yet finalized. On September 26,

2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP, of which approximately 211 thousand shares are allotted for the 2017 annual grant and will be released to selected participants subject to the achievement of the consolidated core net income target for the year 2017. On March 7, 2018, the Executive Compensation Committee, or ECC, of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP. As at March 27, 2018, a total of 553 thousand PLDT common shares have been acquired by the Trustee. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php827 million as at December 31, 2017 and is presented as equity reserves in the consolidated statement of financial position. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 26 – Employee Benefits – Other Long-term Employee Benefits to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision

for asset retirement obligations amounted to Php1,630 million and Php1,582 million as at December 31, 2017 and 2016, respectively. See Note 22 – Deferred Credits and Other Noncurrent Liabilities to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimates of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See Note 27 – Provisions and Contingencies to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

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

Revenue recognition

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

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

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

handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

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

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

Determination of fair values of financial assets and financial liabilities

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

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

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

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

Results of Operations

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

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

	Wireless	Fixed Line (Pesos in millions)	Others	Inter-segment Transactions	Consolidated
For the year ended December 31, 2017					
Revenues	93,835	78,341	16	(12,266)	159,926
Expenses	100,346	63,864	79	(13,874)	150,415
Other income (expenses)	217	(3,323)	10,390	(2,226)	5,058
Income (loss) before income tax	(6,294)	11,154	10,327	(618)	14,569
Provision for (benefit from) income tax	(2,784)	3,680	207	—	1,103
Net income (loss)/Segment profit (loss)	(3,510)	7,474	10,120	(618)	13,466
Adjusted EBITDA	35,151	29,478	(63)	1,608	66,174
Adjusted EBITDA margin ⁽¹⁾	40 %	39 %	(394%)	—	44 %
Core income	8,514	8,846	10,926	(618)	27,668
For the year ended December 31, 2016					
Revenues	104,914	72,728	20	(12,400)	165,262
Expenses	93,204	61,285	42	(13,972)	140,559

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Other income (expenses)	(3,517)	(291)	2,748	(1,572)	(2,632)
Income before income tax	8,193	11,152	2,726	—	22,071
Provision for (benefit from) income tax	(1,270)	3,018	161	—	1,909
Net income/Segment profit	9,463	8,134	2,565	—	20,162
Adjusted EBITDA	32,661	26,950	(22)	1,572	61,161
Adjusted EBITDA margin ⁽¹⁾	32 %	39 %	(110%)	—	39 %
Core income	11,402	7,746	8,709	—	27,857
For the year ended December 31, 2015					
Revenues	115,513	68,865	—	(13,275)	171,103
Expenses	95,358	58,417	59	(14,566)	139,268
Other income (expenses)	(1,958)	(2,599)	651	(1,291)	(5,197)
Income before income tax	18,197	7,849	592	—	26,638
Provision for income tax	2,763	1,656	144	—	4,563
Net income/Segment profit	15,434	6,193	448	—	22,075
Adjusted EBITDA	44,237	24,749	(59)	1,291	70,218
Adjusted EBITDA margin ⁽¹⁾	40 %	38 %	—	—	43 %
Core income	22,512	6,539	6,161	—	35,212

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

Years Ended December 31, 2017 and 2016

On a Consolidated Basis

Revenues

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

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

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

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Data	37,711	(5,984)	31,727
Home broadband	14,896	(167)	14,729
Corporate data and ICT	22,815	(5,817)	16,998
Miscellaneous	1,665	(808	)	857
Others		20	(11	) 9
Total Service Revenues	100,582	69,006	20	(12,398) 157,210
Non-Service Revenues				
Sale of computers, phone units, mobile handsets and				
SIM-packs	4,332	2,909	—	(2) 7,239
Point-product sales	—	813	—	— 813
Total Non-Service Revenues	4,332	3,722	—	(2) 8,052
Total Revenues	104,914	72,728	20	(12,400) 165,262

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

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

Expenses

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

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

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

Other Income (Expenses)

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

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

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

Net Income

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

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

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

Adjusted EBITDA

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

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

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

Core Income

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

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

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

On a Business Segment Basis

Wireless

Revenues

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

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

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

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

Service Revenues

Our wireless service revenues in 2017 decreased by Php11,930 million, or 12%, to Php88,652 million as compared with Php100,582 million in 2016, mainly as a result of lower revenues from mobile services and home broadband services, partially offset by higher revenues from digital platforms and mobile financial services. As a

percentage of our total wireless revenues, service revenues accounted for 94% and 96% for the years ended December 31, 2017 and 2016, respectively.

Mobile Services

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

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

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

Voice Services

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

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

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

SMS Services

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

Data Services

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

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

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

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

Mobile internet

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

Mobile broadband

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

Other data

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

Inbound Roaming and Others

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

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

	2017	2016	Increase (Decrease) Amount	%
	(Pesos in millions)			
Mobile service revenues	84,439	96,497	(12,058)	(12)

By service type

Prepaid	59,862	67,304	(7,442)	(11)
Postpaid	23,188	28,052	(4,864)	(17)
Inbound roaming and others	1,389	1,141	248	22

Prepaid Revenues

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

Postpaid Revenues

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

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

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

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

⁽¹⁾Includes mobile broadband subscribers.

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

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

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

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

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

Sun	422	443	(21)	(5)	418	437	(19)	(4)
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- (1) Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income but excluding inbound roaming revenues, gross of discounts, and content provider costs, by the average number of subscribers in the month.
- (2) Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.

Home Broadband

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

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

Digital Platforms and Mobile Financial Services

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

MVNO and Others

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

Non-Service Revenues

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

Expenses

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

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

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

Total	100,346	100	93,204	100	7,142	8
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Selling, general and administrative expenses decreased by Php426 million, or 1%, to Php42,046 million, primarily due to lower expenses related to selling and promotions, repairs and maintenance, and insurance and security services, partly offset by higher rent expenses and compensation and employee benefits.

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

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

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

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

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

Other Income (Expenses)

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

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

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

Benefit from Income Tax

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

Net Income (Loss)

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

Adjusted EBITDA

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

Core Income

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

Fixed Line

Revenues

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

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

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

Service Revenues

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

Voice Services

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

Data Services

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

2017	2016	Increase Amount	%
(Pesos in millions)			

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Data service revenues	44,294	37,711	6,583	17
Home broadband	18,054	14,896	3,158	21
Corporate data and ICT	26,240	22,815	3,425	15

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

Home Broadband

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

Corporate Data and ICT

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

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

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

Miscellaneous Services

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

Non-service Revenues

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

Expenses

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

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

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

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

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

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

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

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

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

Other Income (Expenses)

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

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

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

Provision for Income Tax

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

Net Income

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

Adjusted EBITDA

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

Core Income

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

Others

Revenues

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

Expenses

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

Other Income (Expenses)

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

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

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

Net Income

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

Core Income

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

Years ended December 31, 2016 and 2015

On a Consolidated Basis

Revenues

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

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

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

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Total Non-Service Revenues	4,797	3,390	—	(14)	8,173
Total Revenues	115,513	68,865	—	(13,275)	171,103

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

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

Expenses

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

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

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

Other Expenses

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

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

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

Net Income

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

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

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

Adjusted EBITDA

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

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

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

Core Income

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

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

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

On a Business Segment Basis

Wireless

Revenues

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

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

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

⁽¹⁾Includes service revenues generated by MVNOs of PLDT Global subsidiaries.
Service Revenues

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

Mobile Services

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

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

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

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

Voice Services

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

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

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

SMS Services

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

Data Services

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

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

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

Mobile internet

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

Mobile broadband

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

Other data

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

Inbound Roaming and Others

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

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

	2016	2015	Increase (Decrease) Amount	%
	(Pesos in millions)			
Mobile service revenues	96,497	105,655	(9,158)	(9)
By service type				
Prepaid	67,304	76,143	(8,839)	(12)

Postpaid	28,052	28,147	(95)	—
Inbound roaming and others	1,141	1,365	(224)	(16)

Prepaid Revenues

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

Postpaid Revenues

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

Subscriber Base, ARPU and Churn Rates

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

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

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

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

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

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

Home Broadband

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

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

Digital Platforms and Mobile Financial Services

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

MVNO and Others

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

Non-Service Revenues

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

Expenses

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

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

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

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Noncurrent asset impairment	1,038	1	5,788	6	(4,750)	(82)
Total	93,204	100	95,358	100	(2,154)	(2)

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

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

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

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

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

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

Other Expenses

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

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

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

Provision for (Benefit from) Income Tax

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

Net Income

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

Adjusted EBITDA

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

Core Income

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

Fixed Line

Revenues

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

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

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

Service Revenues

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

Voice Services

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

Data Services

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

	2016	2015	Increase Amount %
	(Pesos in millions)		
Data service revenues	37,711	33,748	3,963 12

Home broadband	14,896	12,338	2,558	21
Corporate data and ICT	22,815	21,410	1,405	7

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

Home Broadband

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

Corporate Data and ICT

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

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

Miscellaneous Services

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

Non-service Revenues

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

Expenses

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

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

					Increase (Decrease) Amount %
2016	%	2015	%		

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

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

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

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

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

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

Other Expenses

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

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

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

Provision for Income Tax

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

Net Income

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

Adjusted EBITDA

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

Core Income

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

Others

Expenses

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

Other Income

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

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

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

Net Income

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

Core Income

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

Plans

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

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

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

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

Our capital expenditure budget includes projects addressing the following objectives:

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

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

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

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

Liquidity and Capital Resources

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

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

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

Our consolidated cash and cash equivalents and short-term investments totaled Php33,979 million as at December 31, 2017. Principal sources of consolidated cash and cash equivalents in 2017 were cash flows from operating activities

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

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

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

Operating Activities

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

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

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

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

Investing Activities

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

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

million; (6) proceeds from redemption of investment in debt securities by Php297 million; (7) lower payment for purchase of property and equipment by Php350 million; and (8) higher proceeds from disposal of property and equipment by Php1,555 million.

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

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

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

Financing Activities

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

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

Debt Financing

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

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

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

from Php109,867 million as at December 31, 2016. DMPI loans, with a balance of Php314 million as at December 31, 2016, have been fully paid as at December 31, 2017.

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

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

Debt Covenants

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

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

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

Financing Requirements

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

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

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

Preferred Stock ⁽¹⁾					
	May 3, 2016	May 24, 2016	June 15, 2016	—	12
	August 2, 2016	August 18, 2016	September 15, 2016	—	12
	November 14, 2016	November 28, 2016	December 15, 2016	—	12
Voting Preferred Stock					
	February 29, 2016	March 30, 2016	April 15, 2016	—	3
	June 14, 2016	June 30, 2016	July 15, 2016	—	3
	August 30, 2016	September 20, 2016	October 15, 2016	—	2
	December 6, 2016	December 20, 2016	January 15, 2017	—	3
Charged to Retained Earnings					16,696

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

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

Credit Ratings

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

PLDT's current credit ratings are as follows:

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

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

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

On December 12, 2017, Fitch upgraded PLDT's long-term foreign currency issuer default rating at "BBB+", with a stable outlook. Fitch also affirmed PLDT's long-term local currency issuer default rating at "BBB+" and its National Rating at "AAA (ph1)", both with a stable outlook.

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

Off-Balance Sheet Arrangements

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

Equity Financing

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

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

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

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

Impact of Inflation and Changing Prices

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

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

Item 6. Directors, Senior Management and Employees Directors and Executive Officers

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

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

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

⁽¹⁾Elected as Director of the Company effective March 27, 2018.

⁽²⁾Independent Director.

⁽³⁾Resigned effective March 27, 2018 and was replaced by Mr. Emmanuel F. Dooc.

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

Name	Age	Position(s)	Period during which individual has served as such
Executive Officers:			
Manuel V. Pangilinan	71	Chairman of the Board	February 19, 2004 to present
		President and CEO	January 1, 2016 to present
Ernesto R. Alberto	56	Executive Vice President	January 1, 2012 to present
		Enterprise, International and Carrier Business Head	September 16, 2011 to November 30, 2016
		Customer Sales and Marketing Head	February 1, 2008 to September 15, 2011
		Corporate Business Head	May 15, 2003 to January 31, 2008
		Chief Revenue Officer	December 1, 2016 to present
Ray C. Espinosa	61	Regulatory Affairs and Policies Head	March 4, 2008 to November 30, 2016
		Chief Corporate Services Officer	December 1, 2016 to present
Anabelle L. Chua	57	Senior Vice President	February 26, 2002 to present
		Corporate Finance and Treasury Head	March 1, 1998 to May 17, 2015
		Treasurer	February 1, 1999 to May 17, 2015
		Chief Financial Officer of Smart	December 1, 2005 to May 17, 2015
		Chief Financial Officer of PLDT	May 18, 2015 to present
Ma. Lourdes C. Rausa-Chan	64	Senior Vice President	January 5, 1999 to present
		Corporate Secretary	November 24, 1998 to present
		Corporate Affairs and Legal Services Head	January 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present
Ma. Elizabeth S. Sichon	59	Chief People and Culture Officer	December 1, 2016 to present
Victorico P. Vargas	65	Business Transformation Office Head	January 1, 2016 to present
Alejandro O. Caeg	57	Senior Vice President	January 1, 2012 to present
		Consumer Business Customer Development Head	August 1, 2017 to present
		Wireless Consumer Division Sales and Distribution Head of Smart	December 1, 2016 to July 31, 2017
		International and Carrier Business Head	March 1, 2009 to November 30, 2016
Jun R. Florencio	61	Senior Vice President	June 14, 2005 to present
		Internal Audit and Fraud Risk Management Head	February 16, 2006 to present
		Audit and Assurance Head	September 1, 2000 to February 15, 2006
Menardo G. Jimenez, Jr. ⁽¹⁾	54	Senior Vice President	December 9, 2004 to present

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		Human Resources Head and Fixed Line Business Transformation Office (BTO) Head	August 1, 2010 to November 30, 2016
		Business Transformation Office – Revenue Team Head	January 1, 2008 to July 2010
		Retail Business Head	June 16, 2004 to December 31, 2007
		Corporate Communications and Public Affairs Head	December 1, 2001 to June 15, 2004
June Cheryl A. Cabal-Revilla	44	BTO Deputy Head	January 1, 2017 to present
		Senior Vice President	May 12, 2017 to present
		Financial Reporting and Controllershship Head	November 15, 2006 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
		Chief Financial Officer of Smart and DMPI	May 18, 2015 to present
		PLDT Group Controller	May 18, 2015 to present
Juan Victor I. Hernandez	44	Senior Vice President	March 23, 2017 to present
		Enterprise Business Head	December 1, 2016 to present
		Corporate Business Head	August 2009 to November 30, 2016
		Senior Vice President	November 9, 2017 to present
Oscar Enrico A. Reyes, Jr.	42	Consumer Business Market Development Head	August 1, 2017 to present
		Home Business Head	January 1, 2017 to July 31, 2017
Leo I. Posadas	51	First Vice President	March 6, 2007 to present
		Treasurer	May 18, 2015 to present

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

president of the National Union of Students of the Philippines.

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

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

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

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

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

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

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

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

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

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

Ms. Anabelle L. Chua, Chief Financial Officer of the PLDT Group, previously served as the Chief Financial Officer of Smart from 2006 and Chief Financial Officer of Digitel Mobile from 2013 until May 2015. She holds directorships in several subsidiaries of PLDT, Smart and Digitel. She is also a member of the Board of Directors of Philippine Stock Exchange, Securities Clearing Corporation of the Philippines and Philippine Telecommunications Investment

Corporation and the Board of Trustees of the PLDT-Smart Foundation and PLDT Beneficial Trust Fund (“PLDT-BTF”), a director of the companies owned by PLDT-BTF, and a director and member of the Finance, Audit, Risk and Nomination and Governance Committees of the Board of Directors of Meralco. Ms. Chua has over 30 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

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

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

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

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

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

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

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

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

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

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

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

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

Name of Director	Names of Companies	
	Public	Private
Helen Y. Dee	EEI Corporation (Regular Director/Chairman)	AY Holdings, Inc. (Regular Director/Chairman)
	House of Investments (Regular Director/Chairman)	ET Yuchengco, Inc. (Regular Director/Chairman)
	Petro Energy Resources Corporation	Dee Yu Corporation (Regular Director/Chairman)
	(Regular Director/Chairman)	GPL Holdings, Inc. (Regular Director)
	Rizal Commercial Banking Corporation	Hi-Eisai Pharmaceuticals, Inc. (Regular Director/Chairman)
	(Regular Director/Chairman)	Honda Cars, Kaloocan (Regular Director)
		Honda Cars Philippines, Inc. (Regular Director)
		Hydee Management & Resource Corp.
		(Regular Director/Chairman)
		Isuzu Philippines, Inc. (Regular Director)
		La Funeraria Paz Sucat (Regular Director/Chairman)
		Landev Corp. (Regular Director/Chairman)
		Luis Miguel Foods (Regular Director)
		Luisita Industrial Park Corporation (Regular Director)
		Malayan Colleges, Inc. (Regular Director/Chairman)
		Malayan Colleges Mindanao (A. Mapua School) Inc. (Regular Director/Chairman)
		Malayan Insurance Company (Regular
		Director/Chairman)
		Malayan Insurance Co. (HK) Ltd (Regular Director/Chairman)
		Malayan High School of Science, Inc
		(Regular Director/Chairman)
		Manila Memorial Park Cemetery, Inc.

(Regular Director/Chairman)

Mapua Information Technology Center, Inc.

(Regular Director/Chairman)

MICO Equities, Inc. (Regular Director/Chairman)

Mijo Holdings, Inc. (Regular Director/Chairman)

Moira Management, Inc. (Regular Director)

Pan Malayan Express (Regular Director)

Pan Malayan Management and Investment

Corporation (Regular Director/Chairman)

Pan Malayan Realty Corp. (Regular Director/
Chairman)

Petrowind Energy, Inc. (Regular Director/ Chairman)

Philippine Integrated Advertising Agency, Inc. (Regular
Director)

Promotions Personalized Inc. (Regular Director/Chairman)

RCBC Forex Brokers Corp (Regular Director)

RCBC Leasing & Finance Corp (Regular
Director/Chairman)

RCBC Realty Corporation (Regular Director)

RCBC Savings Bank (Regular Director/ Chairman)

Shayamala Corporation (Regular Director/Chairman)

Silver Falcon Insurance Agency, Inc. (Regular
Director/Chairman)

Sunlife Grepa Financial, Inc. (Regular Director/Chairman)

Tameena Resources, Inc. (Regular Director/
Chairman)

Xamdu Motors, Inc. (Regular Director/Chairman)

YGC Corporate Services, Inc. (Regular Director/Chairman)

Y Realty, Inc. (Regular Director)

Terms of Office

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

Family Relationships

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

Compensation of Key Management Personnel

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

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

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

⁽¹⁾Basic monthly salary.

⁽²⁾Includes longevity pay, mid-year bonus, 13th month and Christmas bonus.

⁽³⁾Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both the individual and group team performance and is tied to the achievement of corporate/unit/customer satisfaction objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. See Note 26 – Employee Benefits – Defined Benefit Pension Plans to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further discussion.

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

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

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

Transformation Incentive Plan

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

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

Share Ownership

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

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

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

⁽²⁾ Includes 2,780 shares thru RCBC Trust for the account of Michelle Y. Dee-Santos and 245 shares under the name of Helen Y. Dee, both under PCD Nominee Corporation and 21,957 shares owned by Hydee Management

Corporation. As chairperson and president of Hydee Management Corporation, Ms. Dee may exercise the voting rights in respect of the 21,957 shares of Hydee Management Corporation.

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

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

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

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

(7) Lodged with the PDTC.

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

Board Practices

Board of Directors — Independent Directors

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

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

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

Audit Committee

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

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

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

- review and evaluate the qualifications, performance and independence of the external auditors and its lead audit partner;

- select and appoint the external auditors and to remove or replace the external auditor;

- review and approve in consultation with the head of the internal audit organization and the head of the finance organization all audit and non-audit services to be performed by the external auditors and the fees to be paid to the external auditor for such services, and ensure disclosure of any allowed non-audit services in PLDT's annual report;

periodically review fees for non-audit services paid to the external auditor and disallow non-audit services that will conflict with the external auditor's duties to PLDT or pose a threat to the external auditor's independence;

ensure that the external auditor prepares and delivers annually a statement as to its independence, discuss with the external auditor any relationships or services disclosed in such statement that may impact the objectivity, independence or quality of services of said external auditor and take appropriate action in response to such statement to satisfy itself of the external auditor's independence;

review the external auditor's internal quality-control procedures based on the external auditor's statement submitted at least annually, any material issues raised by recent internal quality-control review or peer review of the external auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, regarding one or more independent audits carried out by the external auditor and steps taken to deal with any such issues;

ensure that the external auditor or its lead audit partner having the primary responsibility for the audit of PLDT's financial accounts is rotated at least once every five years or such shorter or longer period provided under applicable laws and regulations;

advise the external auditor that it is expected to provide the AC a timely analysis of significant/critical financial reporting issues and practices;

obtain assurance from the external auditors that the audit was conducted in a manner consistent with certain procedures to be followed in any audit of financial statements required under applicable rules; and

resolve disagreements between management and the external auditor regarding financial reporting.

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

Governance and Nomination Committee

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

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

The principal functions and responsibilities of our GNC are to:

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

Executive Compensation Committee

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

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

The principal functions and responsibilities of our ECC are to:

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

Technology Strategy Committee

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

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

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

Risk Committee

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

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

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

Advisory Committee

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

Employees and Labor Relations

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

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

	December 31,		
	2017	2016	2015
PLDT Group	17,779	18,038	17,176
Wireless	7,042	7,343	7,505
Fixed Line	10,737	10,695	9,671
LEC	6,832	7,205	7,039

Others	3,905	3,490	2,632
PLDT Only	6,499	6,858	6,705

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

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

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

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

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

Pension and Retirement Benefits

Defined benefit pension plans

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

Defined contribution plans

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

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

Item 7. Major Shareholders and Related Party Transactions

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

Shareholder	Common Shares	Percentage of Common Shares (%)	Voting Preferred Shares	Percentage of Voting Preferred Shares (%)	Percentage of Voting Securities (%)
1. First Pacific Company Limited's affiliates	55,244,642⁽¹⁾	25.6	—	—	15.1
a. Philippine Telecommunications Investment Corporation	26,034,263	12.0	—	—	7.1

b. Metro Pacific Resources, Inc.	21,556,676	10.0	—	—	5.9
2. Nippon Telegraph and Telephone Corporation's affiliates	43,963,642 ⁽²⁾	20.3	—	—	12.0
a. NTT Communications Corporation	12,633,487	5.8	—	—	3.5
b. NTT DOCOMO, INC.	31,330,155 ⁽³⁾	14.5	—	—	8.6
3. JG Summit Holdings, Inc. and its affiliates	17,308,526 ⁽⁴⁾	8.0	—	—	4.7
4. Deutsche Bank AG Manila Branch – Clients A/C	10,881,941 ⁽⁵⁾	5.0	—	—	3.0
5. The Hongkong and Shanghai Banking Corporation					
Limited – Clients' Acct.	19,668,996 ⁽⁵⁾	9.1	—	—	5.4
6. BTF Holdings, Inc. ⁽⁶⁾	—	—	150,000,000	100	41.0

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

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

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

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

⁽⁵⁾Represents shares held on behalf of clients. PLDT has no knowledge if any client beneficial owners of common shares held 5% or more of PLDT's outstanding shares of common stock as at January 31, 2018.

⁽⁶⁾ A wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT or PLDT Beneficial Trust Fund.

As at January 31, 2018, approximately 70.37% of the outstanding voting stock and 83.72% of the outstanding capital stock of PLDT were owned by Philippine persons.

As a result of their respective stockholdings, the FP Parties and/or NTT Communications and/or NTT DOCOMO and/or BTFHI are able to influence our actions and corporate governance, including (i) elections of our directors; and (ii) approval of major corporate actions, which require the vote of holders of common and voting preferred stocks.

Additionally, the FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual rights relating to a number of major decisions and transactions that PLDT could make or enter into.

Specifically, PLDT may not take any of the following actions described without the approval of NTT DOCOMO and NTT Communications, acting in coordination with each other (however, NTT DOCOMO and NTT Communications may not withhold their consent to such actions in circumstances where PLDT proposes to invest in a business that competes with Nippon Telegraph and Telephone Corporation and its subsidiaries and where the board of directors of PLDT has among other things, approved the transaction):

- capital expenditures in excess of US\$50 million;

- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US\$25 million in the case of all investments to any existing investees and US\$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis; and

- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US\$10 million in the case of an existing investee and US\$50 million in the case of a new investee.

PLDT also may not issue common stock or stock that is convertible into common stock except where NTT Communications and NTT DOCOMO have first been offered the opportunity to purchase their pro rata portion of PLDT's shares of common stock.

PLDT is also aware that each of NTT Communications and NTT DOCOMO has agreed (pursuant to the Shareholders Agreement in the case of NTT Communications and pursuant to the Cooperation Agreement in the case of NTT DOCOMO) to use its best efforts to procure that PLDT not take the following actions without the consent of First Pacific and certain of its affiliates, as well as other parties bound by the provisions of the Shareholders Agreement:

new business activities other than those we currently engage in;

merger or consolidation;

winding up or liquidation of PLDT; and

applying to a court to order a meeting of creditors or to sanction any compromise or arrangement between creditors and shareholders of PLDT.

As PLDT is not a party to the Shareholders Agreement, these contractual rights held by NTT Communications, NTT DOCOMO, First Pacific and certain of First Pacific's affiliates are not directly enforceable against PLDT.

Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement. See Note 25 – Related Party Transactions – Transactions with Major Stockholders, Directors and Officers – Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Related Party Transactions

PLDT, in the ordinary course of business, engages in transactions with stockholders, its subsidiaries and affiliates, and directors and officers and their close family members. For PLDT's Guidelines on the Proper Handling of Related Party Transactions, please refer to:

<http://pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4>

This website does not form part of this annual report on Form 20-F.

Except for the transactions discussed in Item 4. "Information on the Company – Recent Developments" and Note 25 – Related Party Transactions to the accompanying audited consolidated financial statements in Item 18. "Financial Statements", there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

Item 8. Financial Information

Consolidated Financial Statements and Other Financial Information

See "Item 18 – Financial Statements."

Legal Proceedings

Except as disclosed in Note 27 – Provisions and Contingencies and Note 10 – Investment in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare – Notice of Transaction filed with the Philippine Competition Commission to the accompanying audited consolidated financial statements in Item 18. "Financial Statements", neither PLDT nor any of its subsidiaries is a party to, and none of their respective properties is subject to, any pending legal proceedings that PLDT considers to be potentially material to its and its subsidiaries' business.

Foreign Ownership Requirements

Two long-lasting proceedings, In the Matter of Wilson Gamboa and the Jose M. Roy III Petition, which challenged our compliance with foreign ownership restrictions were finally decided by the Philippines Supreme Court in a manner not adverse to PLDT. See Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition to the accompanying audited consolidated financial statements in Item 18. "Financial

Statements” for further discussion. Although we currently believe we are in compliance with the foreign ownership restrictions under the Philippine Constitution, if the Philippine SEC or the other relevant authorities in the Philippines determine otherwise, we could be subject to penalties.

While the law is still unsettled on this issue, PLDT has been advised by its Philippine counsel that once a sufficient number of PLDT’s shares are issued or transferred to or are otherwise acquired by qualified Philippine nationals so as to result in PLDT’s foreign ownership percentage being in compliance with the foreign ownership restriction threshold, such a quo warranto case would not have merit, and if already initiated, would be subject to dismissal prior to the time that a judgment becomes final and executory.

Taxation

Local Business and Franchise Taxes

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of PLDT vs. City of Davao declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various Local Government Units, or LGUs. As at December 31, 2017, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT filed a protest on November 3, 2017 against the imposition of local business tax in addition to the local franchise tax issued by the City of Roxas covering the years 2013 to 2017. On February 19, 2018, the City of Roxas cancelled the previously issued notice of business tax assessment.

See Note 27 – Provisions and Contingencies to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further discussion.

Dividend Distribution Policy

See Item 3. “Key Information – Dividends Declared” for a description of our dividend distribution policy, and Note 20 – Equity to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for tables that show dividends declared in 2017.

Item 9. The Offer and Listing Common Capital Stock and ADSs

The shares of common stock of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depository, 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 January 31, 2018 is 53.80%.

As at January 31, 2018, 10,205 stockholders were Philippine persons and held approximately 49.80% of PLDT’s common capital stock. In addition, as at January 31, 2018, there were a total of approximately 31 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 260 holders.

For the period from January 1 to January 31, 2018, a total of 3.26 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 2.11 million ADSs on the NYSE.

High and low sales prices for PLDT’s common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(in Pesos)		(in US \$)	
2018				
First Quarter	1,601.00	1,384.00	32.66	26.97
January	1,601.00	1,384.00	32.66	27.82

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February	1,597.00	1,500.00	30.98	28.51
Through March 26	1,575.00	1,450.00	29.94	26.97
2017				
First Quarter	1,655.00	1,360.00	32.59	27.60
Second Quarter	1,944.00	1,602.00	38.54	31.49
Third Quarter	1,796.00	1,603.00	35.05	30.71
Fourth Quarter	1,762.00	1,437.00	34.38	28.09
October	1,762.00	1,638.00	33.92	31.49
November	1,755.00	1,481.00	34.38	29.10
December	1,550.00	1,437.00	31.64	28.09
2016				
First Quarter	2,360.00	1,675.00	50.48	35.52
Second Quarter	2,150.00	1,621.00	45.88	34.26
Third Quarter	2,170.00	1,666.00	46.13	34.64
Fourth Quarter	1,740.00	1,260.00	36.11	25.50
2015	3,214.00	1,959.00	72.93	39.70
2014	3,292.00	2,604.00	79.04	56.88
2013	3,290.00	2,530.00	78.63	58.63

Item 10. Additional Information
Share Capital

Not applicable.

Amended Articles of Incorporation and By-Laws

Summaries of certain provisions of PLDT's Articles of Incorporation and By-Laws and amendments thereto and applicable Philippine laws as previously disclosed in Item 10 of our annual reports on Form 20-F for the calendar years ended December 31, 2010 and December 31, 2014 filed on March 30, 2011 and March 26, 2015, respectively, are herein incorporated by reference.

On April 12, 2016 and June 14, 2016, the Board of Directors and stockholders of PLDT, respectively, approved amendments to our Articles of Incorporation to reflect the change in the name of the Company from Philippine Long Distance Telephone Company to PLDT Inc. and an expansion of the purposes of the Company. On August 30, 2016, the Board of Directors also approved amendments to our By-Laws to reflect the change in the name of the Company. See Note 1 – Corporate Information – Amendments to the Articles of Incorporation of PLDT and – Amendments to the By-Laws of PLDT to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for a further discussion of the amendments to the Articles of Incorporation and By-Laws.

A copy of each of the Articles of Incorporation and By-Laws, each as amended, is furnished under Item 19. “Exhibits”.

Issuance and Redemption of Preferred Stock

All outstanding shares of PLDT 10% Cumulative Convertible Preferred Stock Series A to Series FF, Series GG and Series HH, which were issued in 2007 and 2008, were redeemed and retired effective on January 19, 2012, August 30, 2012, May 16, 2013 and May 16, 2014, respectively.

On January 26, 2016, the Board authorized and approved effective May 11, 2016, the redemption of shares of the Company's Series II 10% Cumulative Convertible Preferred Stock (also known as the Subscriber Investment Plan, or SIP, Shares), which were issued in 2010. The record date for the determination of the holders of outstanding SIP Shares available for redemption is February 10, 2016. The Board also approved the creation of 20,000 shares of Non-Voting Preferred Stock constituting Series KK 10% Cumulative Convertible Preferred Stock of the Company, for issuance in the implementation of the SIP from January 1, 2016 through December 31, 2020.

Material Contracts

Other than the contracts described below and in Item 7. “Major Shareholders and Related Party Transactions,” we have not entered into any material contract that is not in the ordinary course of business within the two years preceding the date of this annual report.

On May 30, 2016, PLDT executed the following agreements in connection with the SMC Transactions:

• Sale and Purchase Agreement, by and among SMC, PLDT, Globe, and VTI, pursuant to which PLDT and Globe agreed to acquire from SMC 100% of the equity interests in VTI and advances made by SMC to VTI for an aggregate consideration of approximately Php52.1 billion, as amended on July 27, 2016 by the First Amendment to the Sale and Purchase Agreement.

Sale and Purchase Agreement, by and among Grace Patricia W. Vilchez-Custodio, PLDT, Globe, and Brightshare, pursuant to which PLDT and Globe agreed to acquire from Grace Patricia W. Vilchez-Custodio 100% of the equity interests in Brightshare and advances made by Grace Patricia W. Vilchez-Custodio to Brightshare for an aggregate consideration of approximately Php191 million.

Sale and Purchase Agreement, by and among Schutzengel Telecom, Inc., PLDT, Globe, and Bow Arken, pursuant to which PLDT and Globe agreed to acquire from Schutzengel Telecom, Inc. 100% of the equity interests in Bow Arken and advances made by Schutzengel Telecom, Inc. to Bow Arken for an aggregate consideration of approximately Php576 million.

On May 30, 2016, PCEV entered into a Share Purchase Agreement with MPIC, pursuant to which it agreed to sell to MPIC 646 million shares of common stock and 458 million shares of preferred stock of Beacon.

On May 19, 2017, AOGL entered into a Share Purchase Agreement with Partners Group, relating to the acquisition of SPi Global for an enterprise value of US\$370 million. The transaction was completed on August 25, 2017, copies of which are furnished as Exhibit 4n.

On June 13, 2017, PCEV entered into a Share Purchase Agreement with MPIC to sell its remaining 25% equity interest in Beacon, consisting of 646 million shares of common stock and 458 million shares of preferred stock, for a total consideration of Php21,800 million, copies of which are furnished as Exhibit 4o.

Exchange Controls and Other Limitations Affecting Securities Holders

In Circular No. 1389 dated November 10, 1993, as amended by Circular No. 224 dated January 26, 2000, of the BSP, foreign investments in the shares of stock of Philippine companies listed in the PSE may be registered either with the BSP or with an investor's designated custodian bank. The foreign investments in listed shares of stock, which are duly registered with the BSP or with a custodian bank duly designated by the foreign investor, are entitled to full and immediate capital repatriation and dividend and interest remittance privileges. Without the need to obtain prior BSP approval, commercial banks are authorized to sell and to remit the equivalent foreign exchange (at the exchange rate prevailing at the time of actual remittance) representing sales and divestment proceeds or dividends of a duly registered foreign equity investment upon presentation of a BSP Registration Document, or BSRD, together with other supporting documents. The BSRD is issued by the BSP or the custodian bank upon registration of the foreign investment and serves as the authority to repatriate such divestment and sales proceeds or remittance of cash dividends. Effective April 3, 2000, only pre-numbered BSRD forms, printed on BSP security paper may be used and issued as proof of registration of foreign investments in accordance with existing BSP rules. The remitting commercial bank must submit to the BSP a statement of remittance together with the supporting documents within two banking days from date of actual remittance. Foreign investments not duly registered with the BSP or with the investor's designated custodian bank are not entitled to repatriation and remittance privileges through the banking system except capital repatriation or dividend remittance of direct foreign equity investments made prior to March 15, 1973 when BSP registration was not yet required. The BSP should be notified of the transfer of sale of foreign investments in equity or securities already registered with the BSP, in order that the registration of the foreign investment may be transferred in the name of the transferee or purchaser.

Cash dividends on PLDT's stock are paid in Philippine peso, except dividends on the Series VI Convertible Preferred Stock, which were paid in U.S. dollars. PLDT's Transfer Agent for its common stock, The Hong Kong and Shanghai Banking Corporation, which also acts as dividend paying agent, converts and remits in U.S. dollars, at the prevailing exchange rate, cash dividends due to all common shareholders residing outside the Philippines. Under the above-mentioned regulations, PLDT has been able to remit the cash dividends due to shareholders residing outside the Philippines. As at December 31, 2017, approximately 87% of PLDT's outstanding shares of common and preferred stock were held by Philippine persons. For certain restrictions on the declaration and payment of dividends by PLDT, see Note 20 –Equity and Note 21 – Interest-bearing Financial Liabilities to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Taxation

The following is a description of the material Philippine and United States federal income tax consequences to United States Holders (as defined below) of owning shares of common stock and ADSs. It applies to you only if you hold your common stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the combined voting power of PLDT's voting stock or of the total value of PLDT's stock, a person that holds common stock or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986, as amended (the “U.S. Tax Code”), its legislative history, existing and proposed regulations, published rulings and court decisions, and the laws of the Philippines including the Philippine National Internal Revenue Code of 1997, or the Philippine Tax Code, all as currently in effect, as well as on the Convention between the Philippines and the United States, or the Philippines-United States Tax Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part on the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed according to its terms.

You are a United States Holder if you are a beneficial owner of common stock or ADSs and you are a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation and Philippine income taxation, estate and donor's taxation, stock transaction taxation and documentary stamp taxes.

Philippine Taxation

Taxes on Exchange of ADSs for Common Stock

Philippine capital gains or stock transaction taxes and documentary stamp taxes may be payable upon the transfer of shares of common stock to a holder of ADRs or to a holder of Global Depositary Receipts. See “— Capital Gains Tax and Stock Transaction Tax” and “— Documentary Stamp Taxes.”

Taxation of Dividends

Under the Philippine Tax Code, dividends paid by a Philippine corporation to citizens of the Philippines and resident aliens in the Philippines are subject to a final withholding tax of 10% while those paid to non-resident aliens engaged in trade or business within the Philippines are subject to a final withholding tax of 20%. Dividends paid to non-resident aliens not engaged in trade or business within the Philippines are subject to a final withholding tax of 25%. Dividends paid by a Philippine corporation to other Philippine corporations or to resident non-Philippine corporations are not subject to tax. Dividends paid by Philippine corporations to non-resident non-Philippine corporations not engaged in a trade or business in the Philippines shall be subject to a final withholding tax of 15% (“tax sparing”), subject to the condition that the country in which the non-resident non-Philippine corporation is domiciled either: (i) allows a credit against the tax due from the non-resident non-Philippine corporation taxes deemed to have been paid in the Philippines equivalent to 15% effective January 1, 2009 (which represents the difference between the regular income tax on non-resident non-Philippine corporations of 30% effective January 1, 2009 and the 15% tax on dividends) (this condition is not satisfied in the case of corporations domiciled in the United States if such corporations own less than 10% of the voting stock of PLDT) or (ii) imposes no income taxes on dividends received by such non-resident non-Philippine corporations from Philippine corporations (this condition is not satisfied in the case of corporations domiciled in the United States). If neither of the foregoing conditions are met, the dividends paid to the non-resident non-Philippine corporation shall be subject to the regular income tax (in the form of final withholding tax) at the rate of 30% effective January 1, 2009. Under rulings issued by Philippine tax authorities, Hong Kong is viewed as falling within clause (ii) and, thus, companies that are organized in Hong Kong that are not engaged in trade or business in the Philippines may be entitled to the benefit of the 15% rate. Such rulings, however, were based upon the laws of Hong Kong as in effect at the time such rulings were issued, and any subsequent changes in the relevant laws of Hong Kong may affect the validity of such rulings. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

If the holder of common stock is a non-resident foreign partnership, which is treated as a corporation for Philippine tax purposes, dividends on the common stock should be subject to a final withholding tax of 30% effective January 1, 2009. Cede & Co., the partnership nominee of Depository Trust Company, should qualify as a non-resident foreign partnership that would be treated as a corporation for Philippine tax purposes.

In certain circumstances where the holder has common stock, a tax treaty rate may be applicable with respect to the Philippine withholding tax. For instance, holders under such circumstances and as to which the Philippines-United States Tax Treaty would be applicable would be eligible for a treaty rate of 25% (or 20% in certain instances). The 20% treaty rate is generally not applicable in the case of non-resident non-Philippine corporations domiciled in the United States which own less than 10% of the voting stock of PLDT.

The BIR has prescribed certain procedures, through an administrative issuance, for availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident shareholder (or a duly authorized representative) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax. The “first taxable event” has been construed by the BIR as “payment of the dividend.” Failure to file the application for tax treaty relief with the BIR prior to the first taxable event may disqualify the said application. A corporation may withhold taxes at a reduced rate on dividends paid to a non-resident holder of the common shares if such non-resident holder

submits to the domestic corporation proof of the filing of the tax treaty relief application with the BIR prior to the payment of dividends. However, the Philippine Supreme Court in *Deutsche Bank AG Manila Branch v. CIR*, G.R. No. 188550, ruled that the period of application for the availment of tax treaty relief should not operate to divest the taxpayer the entitlement to the tax relief as it would constitute a violation of the duty required by good faith to comply with the treaty. The application for a tax treaty relief to be filed with the BIR operates to confirm the entitlement of the taxpayer to such relief. While the Supreme Court has ruled that the failure to file an application for tax treaty relief shall not disqualify an otherwise eligible taxpayer, in practice, some withholding agents strictly require the income earners (payees) to show an approved tax treaty relief application before availing of lower treaty tax rates to avoid controversy. On March 28, 2017, the BIR issued BIR Revenue Memorandum Order, or RMO, No. 08-2017 (“RMO 08-2017”), which simplified the procedures for applying preferential tax treaty rates for dividends, interests and royalties. This RMO provides that the preferential treaty rates shall be applied and used outright by the withholding agent upon submission by the non-resident payor of a Certificate of Residence for Tax Treaty Relief Form, which shall serve as proof of residency of such non-resident payor. RMO No. 08-2017 does not cover non-resident foreign corporations invoking the tax sparing provision (or the reduced tax rate of 15 percent on intercorporate dividends paid to nonresident foreign corporations).

Capital Gains Tax and Stock Transaction Tax

The Philippine Tax Code provides that gain from the sale of shares of stock in a Philippine corporation shall be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. Subject to applicable tax treaty rates, the rate of tax on such gain, where the share is not disposed of through the PSE, is a final tax (i.e., capital gains tax) of 5% for gains not exceeding Php100,000 and 10% for gains in excess of that amount.² The rate is the same for both non-resident individuals and non-resident non-Philippine corporations. While this tax is not collected through withholding, the Philippine Tax Code prohibits a sale or transfer of shares of stock from being recorded in the Stock and Transfer Books of the corporation unless the Philippine Commissioner of Internal Revenue certifies that the tax has been paid or certain other conditions are met.

The sale of shares which are listed in and sold through the PSE are subject to the stock transaction tax imposed at the rate of 1/2 of 1% of the gross selling price.³ This tax is required to be collected and paid to the government by the selling stockbroker on behalf of his client. In a letter from the BIR dated December 28, 2010 and addressed to the SEC, the BIR sets out the policy that, for tax purposes: (i) listed companies should continually maintain, if not surpass, their initial public ownership requirement (the minimum public ownership, or MPO) in order to continually enjoy the preferential tax rate of 1/2 of 1% of the gross selling price or gross value on money arising from the disposal by the stockholders of their listed shares through the PSE; and (ii) failure of listed companies to do so exposes the stockholders selling their shares to the 5%/10% capital gains tax as these companies are no longer compliant with their “public ownership” status and will, thus, not be considered publicly-listed companies for taxation purposes. On November 7, 2012, the BIR issued Revenue Regulations No. 16-2012 prescribing the tax treatment of sales, 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.⁴ The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred, when the obligation or right arises from Philippine sources or the property is situated in the Philippines. The sale, barter, transfer or exchange of shares of stock of a Philippine Corporation which is listed and traded through the facilities of the PSE is exempt from the documentary stamp tax. However, Revenue Regulations No. 16-2012 provides that transfers of shares of stock of publicly-listed companies which are not compliant with the MPO requirement shall be subject to documentary stamp tax.

²R.A. No. 10963 or the Tax Reform for Acceleration and Inclusion (“TRAIN”) was signed into law on December 19, 2017 and became effective on January 1, 2018. The TRAIN amended several provisions of Republic Act No. 8424, as amended, or the National Internal Revenue Code (“NIRC”). Under the TRAIN, capital gains tax shall be 15% of the net capital gains realized during the taxable year.

³Under the TRAIN, stock transaction tax shall be 6/10 of 1% of the gross selling price or gross value in money.

⁴Under the TRAIN, documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation shall be Php1.50 on each Php200, or fractional part thereof, of the par value of the shares.

Estate and Donor's Taxes

Shares of stock issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes. The transfer of shares of stock by a deceased individual to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over Php200,000.⁵ Individual shareholders, whether or not citizens or residents of the Philippines, who transfer the Equity Securities by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15%, if the net gifts made during the calendar year exceed Php100,000. The rate of tax with respect to net gifts made to a stranger, who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship of the donor, is a flat rate of 30%.⁶ Donations to or from corporations are considered donations from a stranger for donor's tax purposes. Estate and gift taxes will not be collected in respect of intangible personal property such as the Equity Securities:

- if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or
- if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Shares of stock of a deceased shareholder or shares that have been donated may not be transferred on the books of the corporation without a certificate from the Philippine Commissioner of Internal Revenue that the applicable estate or donor's taxes have been paid. In the case of ADRs, however, there is no corresponding requirement, unless a transfer of the ADRs would also entail a change in the registration of the underlying shares.

United States Federal Taxation

In general, taking into account the earlier assumptions that each obligation of the Deposit Agreement and any related agreement will be performed according to its terms, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares of common stock for ADRs, and ADRs for shares of common stock, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a United States Holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate United States Holder, dividends paid to you that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains provided

that, in the case of common stock or ADSs you hold the common stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Dividends we pay with respect to the common stock or ADSs generally will be qualified dividend income.

You must include any Philippine tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of common stock, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a United States Holder will be the U.S. dollar value of the Philippine peso payments made, determined at the spot Philippine peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss

⁵Under the TRAIN, estate tax shall be at the rate of 6% of the net estate.

⁶Under the TRAIN, donor's tax shall be at the rate of 6% of the total gifts in excess of Php250,000.00. With the amendment of the NIRC by the TRAIN, the relationship between the donor and donee becomes irrelevant since all donations shall now be subject to the same tax rate of 6%.

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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 generally be “passive” income for purposes of computing the foreign tax credit allowable to you.

Sale or Other Disposition of Equity Securities

Subject to the PFIC rules discussed below, a United States Holder will recognize capital gain or loss upon the sale of common stock or ADSs in an amount equal to the difference between such United States Holder’s basis in the common stock or ADSs and the amount realized upon the sale, determined in U.S. dollars. Such gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or retirement, the common stock or ADSs have been held for more than one year. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Generally, any such gain or loss will be treated as realized income or loss from sources within the United States for foreign tax credit limitation purposes. United States Holders may not be eligible to credit against their United States federal income tax liability amounts paid in respect of the Philippine stock transaction tax. See Item 10. “Additional Information — Philippine Taxation — Capital Gains Tax and Stock Transaction Tax.”

The U.S. Tax Code does not authorize a comparable credit for foreign gift or donor’s taxes such as those imposed by the Philippines. See Item 10. “Additional Information — Philippine Taxation — Estate and Donor’s Taxes.”

Passive Foreign Investment Company Rules

We believe that the common stock and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of your common stock or ADSs would in general not be treated as capital gain. Instead, unless you elect to be taxed annually on a mark-to-market basis with respect to your common stock or ADSs, you would be treated as if you had realized such gain and certain "excess distributions" ratably over your holding period for the common stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your shares of ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC (or are treated as a PFIC with respect to you) either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Dividends and Paying Agents

Not applicable.

Statement by Experts

Not applicable.

Documents on Display

We are subject to the informational requirements of the Exchange Act, and file reports and other information with the Commission, as required by this Act. Reports and other information filed by us with the Commission may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Copies of these materials may be obtained by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005, on which the ADSs representing our common stock are listed.

Item 11. Quantitative and Qualitative Disclosures About Market Risks

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. We also monitor the market price risk arising from all financial instruments.

See Note 28 – Financial Assets and Liabilities – Financial Risk Management Objectives and Policies to the accompanying consolidated financial statements in Item 18. “Financial Statements” for a detailed discussion.

Item 12. Description of Securities Other than Equity Securities

Fees and Charges for Holders of American Depositary Receipts

JP Morgan Chase Bank, N.A., or the depositary, as depositary of our ADS collects fees from each person to whom ADS are issued, US\$5.00 for each 100 ADS (or portion thereof) issued, delivered, reduced, cancelled or surrendered.

The depositary also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

- US\$0.02 or less per ADS (or portion thereof) for any cash distribution made;
- US\$1.50 per ADR for transfers made (to the extent such fee is not prohibited by the rules of the primary stock exchange upon which the ADSs are listed);
- a fee in an amount equal to the fee for the execution and delivery of ADSs for the distribution or sale of securities, which would have been charged as a result of the deposit of such securities but which securities or the net proceeds from the sale thereof are instead distributed by the depositary to the holders entitled thereto;
- US\$0.02 per ADS (or a portion thereof) per year for the services rendered by the depositary for administering the ADR program (which fee shall be assessed as of the record date or dates set by the depositary not more than once each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distribution);
- such fees and expenses as are incurred by the depositary (including without limitation expenses incurred on behalf of holders in compliance with foreign exchange control regulations or any law or regulation relating to foreign

investment) in the delivery of the common stock or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations;

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stock transfer and other taxes and governmental charges (which are payable by the holder or person depositing the common stock), cable, telex and facsimile transmission and delivery charges incurred at the request of the person depositing the common stock or holder delivering the common stock, ADRs or deposited common stock (which are payable by such person or holder), transfer or registration fees for the registration or transfer of deposited common stock in connection with the deposit or withdrawal of the deposited common stock (which are payable by the person depositing or withdrawing deposited common stock), expense by the depositary in the conversion of foreign currency into U.S. dollars; and

any other charge payable by the depositary or its agents in connection with its service as depositary in implementation of the Company's ADR Program pursuant to Section 4.02, 4.03, 4.04, or 4.05 of the Deposit Agreement, as amended.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse certain reasonable expenses of PLDT related to PLDT's ADR program and incurred by PLDT in connection with the ADR program. The amounts reimbursable by the depositary are not necessarily related to the fees collected by the depositary from ADR holders. For the year ended December 31, 2017, we were not entitled to any reimbursement from our depositary.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, carried out an evaluation on the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as at December 31, 2017. Based on this evaluation, our CEO and principal financial officer concluded that our disclosure controls and procedures were effective as at December 31, 2017.

Management's Annual Report on Internal Control Over Financial Reporting. The Management of the PLDT Group is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934, as amended.

Our internal control over financial reporting is designed and implemented under the supervision of our principal executive officers and principal finance officers, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the PLDT Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the PLDT Group are being made only in accordance with authorizations of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of the PLDT Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statements preparation and presentation, and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the PLDT Group's internal control over financial reporting as at December 31, 2017, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013.

Based on this assessment, management has determined that the internal control over financial reporting of the PLDT Group was effective as at December 31, 2017.

We reviewed the results of management's assessment with the AC of the Board of Directors.

SyCip Gorres Velayo & Co., or SGV & Co., (a member firm of the Ernst & Young Global Limited), an independent registered public accounting firm, has audited our consolidated financial statements included in this Annual Report and has issued an attestation report on our internal control over financial reporting as at December 31, 2017. This

attestation report is dated March 27, 2018 and is set forth in Item 18 “Financial Statements” of the Annual Report on Form 20-F for the year ended December 31, 2017.

Changes in Internal Control Over Financial Reporting

In 2017, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that currently none of the members of the AC is an audit committee financial expert as defined under the applicable rules of the U.S. SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Because our Board of Directors believes that the AC members along with its advisors, possess sufficient financial knowledge and experience, our Board of Directors has not separately appointed an audit committee member who qualifies as an audit committee financial expert. Our Board of Directors has appointed Ms. Corazon de la Paz-Bernardo, a former member of our Board of Directors, as AC advisor to render advice on complex financial reporting or accounting issues that may be raised in our AC's evaluation of our financial statements and other related matters. Formerly the Chairman and Senior Partner of Joaquin Cunanan & Co., now Isla Lipana & Co., a member firm of PricewaterhouseCoopers Worldwide, Ms. Corazon de la Paz-Bernardo is a certified public accountant and possesses in-depth knowledge of accounting principles (including IFRS), internal controls and procedures for financial reporting and audit committee functions, as well as extensive experience in overseeing or actively supervising the preparation, audit, analysis or evaluation of financial statements and in addressing complex and general financial reporting, accounting and audit issues.

Item 16B. Code of Business Conduct and Ethics

PLDT has adopted a Code of Business Conduct and Ethics, or PLDT's Code of Ethics, which constitutes a "code of ethics" as defined in Item 16.B of Form 20-F. PLDT's Code of Ethics applies to its directors, officers, including its principal executive officer, principal financial officer and principal accounting officer or controller, and employees.

A copy of the PLDT's Code of Ethics is posted on our website at <http://www.pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4> under the Corporate Governance section. This website does not form part of this annual report on Form 20-F. The Company has undertaken to provide a copy, without charge, to any person requesting for a copy of PLDT's Code of Ethics from our Chief Governance Officer, Atty. Ma. Lourdes C. Rausa-Chan, who can be reached at e-mail address lrchan@pldt.com.ph or telephone number +632-816-8556.

Item 16C. Principal Accountant Fees and Services

The following table summarizes the fees paid or accrued for services rendered by SGV & Co., our independent auditors for the years ended December 31, 2017 and 2016:

	2017	2016
	(Pesos in millions)	
Audit Fees	48	43
All Other Fees	24	23
Total	72	66

Audit Fees. This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2017 and 2016.

Tax Fees. We did not have any tax fees for the years ended December 31, 2017 and 2016.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2017 and 2016, and other non-audit engagements.

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

Our AC pre-approved all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

Audit Committee's Pre-approval Policies and Procedures

AC pre-approval of services rendered by our independent auditor follows:

- The AC has adopted a policy for pre-approval of audit, audit-related and permitted non-audit services to be rendered by our independent auditor, that should be interpreted in conjunction with the ACs' policy on auditor independence.
- The AC does not engage our independent auditor for "prohibited services" at any point during the audit and professional engagement period.
- To ensure the prompt handling of unexpected matters, the AC may delegate its authority to specifically pre-approve services to one or more of its members. The member(s) to whom such authority is delegated must report any pre-approval decisions to the AC at its next regularly scheduled meeting.
- The AC is directly responsible for the appointment, setting of compensation, retention, removal and oversight of the work of our independent auditor.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchaser

On September 26, 2017, PLDT publicly announced a grant of 860,000 Performance Shares in connection with the TIP. On March 7, 2018, the ECC of the Board approved the acquisition of additional 54,000 shares, increasing the total Performance Shares to 914,000. The Performance Shares will be released in three annual grants on the condition, that pre-defined consolidated core net income targets are successfully achieved over three-year annual vesting period starting January 1, 2017 to December 31, 2019.

The following table presents information related to our repurchase of our ordinary shares during the year ended December 31, 2017:

Period	Total number of shares purchased	Weighted average price per share (in Pesos)	Number of shares purchased as part of publicly announced program	Number of shares yet to be purchased under the TIP
January 2017	—	—	—	—
February 2017	—	—	—	—
March 2017	—	—	—	—
April 2017	—	—	—	—
May 2017	—	—	—	—

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June 2017	—	—	—	—
July 2017	—	—	—	—
August 2017	—	—	—	—
September 2017	—	—	—	—
October 2017 ⁽¹⁾	520,295	1,708	520,295	339,705
November 2017 ⁽²⁾	22,870	1,608	22,870	316,835
December 2017 ⁽³⁾	10,270	1,456	10,270	306,565
	553,435		553,435	963,105

⁽¹⁾On various dates in October 2017, Metrobank, as the Trustee of the program, repurchased our 520,295 shares from the market, including 23,398 shares from the PLDT Employee Benefit Trust Fund, at the prevailing market price on the date of purchase.

⁽²⁾On various dates in November 2017, Metrobank, as the Trustee of the program, repurchased our 22,870 shares from the market at the prevailing market price on the date of purchase.

⁽³⁾ On various dates in December 2017, Metrobank, as the Trustee of the program, repurchased our 10,270 shares from the market at the prevailing market price on the date of purchase.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

PLDT is a Philippine company with its shares of common stock listed on the PSE and ADSs listed on the NYSE. As a foreign private issuer, PLDT is permitted under the NYSE listing standards to follow Philippine corporate governance practices on most corporate governance matters, and, accordingly, PLDT complies with the requirements of the Philippine Securities Regulation Code and Philippine Corporation Code, and, as appropriate, the recommended practices under Philippine SEC Code of Corporate Governance for Publicly-Listed Companies ("CG Code for PLCs") in respect of corporate governance matters as well as with the NYSE listing standards applicable to foreign private issuers. The CG Code for PLCs, which was issued by the Philippine SEC and which took effect on January 1, 2017, contains Code provisions with recommended corporate governance practices. In accordance with its "comply or explain" approach, the CG Code for PLCs requires publicly-listed companies to state in their respective annual corporate governance reports whether they comply with the Code provisions or, in case of non-compliance, explain the reason for such non-compliance.

PLDT's corporate governance practices are generally consistent with the NYSE listing standards, except that PLDT's corporate governance practices differ from U.S. companies under the NYSE listing standards in the significant ways summarized below.

- ◆ **Number of Independent Directors.** The NYSE listing standards require a majority of the board of directors to be independent. We have three independent directors out of 13 directors, which meets the requirement under Section 38 of the Philippine Securities Regulation Code that at least two (2) or twenty percent (20%) of the total members of the board, whichever is the lesser, must be independent.
- ◆ **Director Independence Tests.** There are differences between the director independence tests applied in PLDT's corporate governance practice and those under the NYSE listing standards. In some cases the independence tests set forth in the NYSE listing standards are more stringent than those under PLDT's corporate governance practice, and in other cases the independence tests set forth in the NYSE listing standards are less stringent than those under PLDT's corporate governance practice.
- ◆ **An example where the NYSE listing standards impose more stringent standards than PLDT's corporate governance practices include the "auditor affiliation" test.** In contrast to the NYSE listing standards, under PLDT's By-Laws and Board Committee charters, present or previous affiliation or employment of a director's immediate family member with the external auditors does not preclude a determination that such director is independent.
- ◆ **An example where PLDT's corporate governance practices impose more stringent standards than NYSE listing standards is the "material relationship with the listed company" test.** PLDT's Manual on Corporate Governance ("PLDT's CG Manual") provides that a director who owns more than 2% of the shares of stock of PLDT, or whose relative is a substantial shareholder of PLDT, any of its related companies or any of its substantial shareholders cannot be considered as independent.
- ◆ **Meetings of non-management/independent directors.** The NYSE listing standards require regularly scheduled executive sessions of non-management directors without management participation or regularly scheduled executive sessions consisting of only independent directors. PLDT's CG Manual mandates that the Board shall hold executive sessions with the independent directors and non-executive directors, excluding executive directors, at least once a year and at such other times as the Board may deem necessary or appropriate, and that such executive sessions shall be presided by the chairman of the Governance and Nomination Committee, except if said chairman is an executive director, in which case, by an independent director or non-executive director designated by the Board.

✶Nominating/Corporate Governance Committee and Compensation Committee. The NYSE listing standards require a listed company to maintain a nominating/corporate governance committee and a compensation committee, both composed entirely of independent directors. Our GNC and our ECC is each normally composed of five voting members, a majority of whom are normally independent directors.

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- The NYSE listing standards require the compensation committee to conduct an independent assessment with respect to any compensation consultant, legal counsel or other adviser that provides advice to the compensation committee. There is no such requirement under PLDT's CG Manual.

• **Audit Committee.** As required by NYSE listing standards, PLDT maintains an audit committee in full compliance with Rule 10A-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and Section 303A.06 of the NYSE Listed Company Manual. All of the members of PLDT's AC are independent directors meeting the independence requirements of Rule 10A-3 as well as those under Section 303A.07 of the NYSE Listed Company Manual, except in those areas where our independence tests adopted pursuant to the CG Code for PLCs differ from those under the NYSE listing standards, as discussed above.

PLDT's disclosure containing a summary of differences on corporate governance practices based on requirements of Philippine law on one hand, and U.S. law on the other, is found in this link:

<http://www.pldt.com/docs/default-source/NYSE/nyse-section-303a-11-disclosure.pdf?sfvrsn=0>. This website does not form part of this annual report on Form 20-F.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

PLDT has elected to provide the financial statements and related information specified in Item 18. “Financial Statements” in lieu of Item 17.

Item 18. Financial Statements

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Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders

PLDT Inc.

Opinion on Internal Control over Financial Reporting

We have audited PLDT Inc. and its subsidiaries' (collectively referred to as "PLDT Group") internal control over financial reporting as at December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the "COSO criteria"). In our opinion, the PLDT Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the PLDT Group as at December 31, 2017 and 2016, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated March 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The PLDT Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the PLDT Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the PLDT Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and 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.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ SyCip Gorres Velayo & Co.

Makati City, Philippines

March 27, 2018

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Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders

PLDT Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of PLDT Inc. and its subsidiaries (collectively referred to as “PLDT Group”) as at December 31, 2017 and 2016, and the related consolidated income statements, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the PLDT Group as at December 31, 2017 and 2016, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the PLDT Group’s internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated March 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the PLDT Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the PLDT Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. Our audits include performing procedures to assess the risks of material misstatements of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our

audits provide a reasonable basis for our opinion.

/s/ SyCip Gorres Velayo & Co.

We have served as the PLDT Group's auditor since 2002.

Makati City, Philippines

March 27, 2018

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017 AND 2016

AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2017 and 2016

(in million pesos)

	2017	2016
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	186,907	203,188
Investments in associates and joint ventures (Note 10)	46,130	56,858
Available-for-sale financial investments (Notes 6 and 11)	15,165	12,189
Investment in debt securities and other long-term investments – net of current portion		
(Note 12)	150	374
Investment properties (Notes 6 and 13)	1,635	1,890
Goodwill and intangible assets (Note 15)	69,583	70,280
Deferred income tax assets – net (Note 7)	30,466	27,348
Derivative financial assets – net of current portion (Note 28)	215	499
Prepayments – net of current portion (Note 19)	5,370	7,056
Advances and other noncurrent assets – net of current portion (Note 25)	14,154	9,473
Total Noncurrent Assets	369,775	389,155
Current Assets		
Cash and cash equivalents (Note 16)	32,905	38,722
Short-term investments (Note 28)	1,074	2,738
Trade and other receivables (Note 17)	33,761	24,436
Inventories and supplies (Note 18)	3,933	3,744
Current portion of derivative financial assets (Note 28)	171	242
Current portion of investment in debt securities and other long-term investments (Note 12)	100	326
Current portion of prepayments (Note 19)	9,633	7,505
Current portion of advances and other noncurrent assets (Note 20)	8,092	8,251
Total Current Assets	89,669	85,964
TOTAL ASSETS	459,444	475,119
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Notes 8 and 20)	360	360
Voting preferred stock (Note 20)	150	150
Common stock (Notes 8 and 20)	1,093	1,093
Treasury stock (Notes 8 and 20)	(6,505)	(6,505)
Treasury shares under employee benefit trust (Note 26)	(940)	—
Capital in excess of par value (Note 20)	130,374	130,488
Other equity reserves (Note 26)	827	—
Retained earnings (Note 20)	634	3,483
Other comprehensive loss (Note 6)	(19,151)	(20,894)
Total Equity Attributable to Equity Holders of PLDT (Note 28)	106,842	108,175

Noncontrolling interests (Note 6)	4,341	362
TOTAL EQUITY	111,183	108,537

See accompanying Notes to Consolidated Financial Statements.

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at December 31, 2017 and 2016

(in million pesos)

	2017	2016
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 25)	157,654	151,759
Deferred income tax liabilities – net (Note 7)	3,366	3,567
Derivative financial liabilities – net of current portion (Note 28)	8	2
Customers' deposits (Note 28)	2,443	2,431
Pension and other employee benefits (Note 26)	8,997	11,206
Deferred credits and other noncurrent liabilities (Note 22)	7,702	15,604
Total Noncurrent Liabilities	180,170	184,569
Current Liabilities		
Accounts payable (Note 23)	60,445	52,950
Accrued expenses and other current liabilities (Notes 24 and 27)	90,740	93,116
Current portion of interest-bearing financial liabilities (Notes 21 and 25)	14,957	33,273
Dividends payable (Note 20)	1,575	1,544
Current portion of derivative financial liabilities (Note 28)	141	225
Income tax payable (Note 7)	233	905
Total Current Liabilities	168,091	182,013
TOTAL LIABILITIES	348,261	366,582
TOTAL EQUITY AND LIABILITIES	459,444	475,119

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31, 2017, 2016 and 2015

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

	2017	2016	2015
REVENUES			
Service revenues	151,165	157,210	162,930
Non-service revenues (Note 5)	8,761	8,052	8,173
	159,926	165,262	171,103
EXPENSES			
Selling, general and administrative expenses (Note 5)	68,990	67,196	70,289
Depreciation and amortization (Note 9)	51,915	34,455	31,519
Cost of sales and services (Note 5)	13,633	18,293	17,453
Asset impairment (Note 5)	8,258	11,042	9,690
Interconnection costs	7,619	9,573	10,317
	150,415	140,559	139,268
	9,511	24,703	31,835
OTHER INCOME (EXPENSES) (Note 5)	5,058	(2,632)	(5,197)
INCOME BEFORE INCOME TAX	14,569	22,071	26,638
PROVISION FOR INCOME TAX (Note 7)	1,103	1,909	4,563
NET INCOME	13,466	20,162	22,075
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	13,371	20,006	22,065
Noncontrolling interests	95	156	10
	13,466	20,162	22,075
Earnings Per Share Attributable to Common Equity			
Holders of PLDT (Note 8)			
Basic	61.61	92.33	101.85
Diluted	61.61	92.33	101.85

Certain expenses in 2016 and 2015 were reclassified to conform with the 2017 presentation.

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2017, 2016 and 2015

(in million pesos)

	2017	2016	2015
NET INCOME	13,466	20,162	22,075
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Net gains (losses) on available-for-sale financial investments:	3,364	860	(8,135)
Unrealized gains (losses) from changes in fair value			
adjustments recognized during the year (Note 11)	2,826	(4,520)	(13,258)
Impairment recognized in profit or loss (Note 11)	540	5,381	5,124
Income tax related to fair value adjustments charged			
directly to equity (Note 7)	(2)	(1)	(1)
Share in the other comprehensive income (loss) of associates			
and joint ventures accounted for using the equity method (Note 10)	112	151	(14)
Foreign currency translation differences of subsidiaries	(18)	79	45
Net transactions on cash flow hedges:	(376)	10	31
Net fair value gains (losses) on cash flow hedges (Note 28)	(411)	76	5
Income tax related to fair value adjustments charged			
directly to equity (Note 7)	35	(66)	26
Net other comprehensive income (loss) to be reclassified to			
profit or loss in subsequent years	3,082	1,100	(8,073)
Share in the other comprehensive income (loss) of associates			
and joint ventures accounted for using the equity method (Note 10)	194	—	(235)
Revaluation increment on investment properties:	1	17	(1)
Fair value adjustment to property and equipment			
transferred to investment properties during the year (Note 13)	4	26	—
Depreciation of revaluation increment in investment			
properties transferred to property and equipment (Note 9)	(2)	(2)	(2)
Income tax related to revaluation increment charged			
directly to equity (Note 7)	(1)	(7)	1
Actuarial losses on defined benefit obligations:	(1,091)	(3,571)	(1,598)
Remeasurement in actuarial losses on defined benefit obligations	(1,566)	(5,112)	(2,356)
Income tax related to remeasurement adjustments (Note 7)	475	1,541	758

Net other comprehensive loss not to be reclassified to profit			
or loss in subsequent years	(896)	(3,554)	(1,834)
Total Other Comprehensive Income (Loss) – Net of Tax	2,186	(2,454)	(9,907)
TOTAL COMPREHENSIVE INCOME	15,652	17,708	12,168
ATTRIBUTABLE TO:			
Equity holders of PLDT	15,550	17,557	12,148
Noncontrolling interests	102	151	20
	15,652	17,708	12,168

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2017, 2016 and 2015

(in million pesos)

	Total Equity Attributable to Equity Holders of PLDT										Total Noncontrolling Interests Equity
	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserve	Retained Earnings	Other Comprehensive Income (Loss)			
Balances as at January 1, 2017	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537
Total comprehensive income:	—	—	—	—	—	—	13,807	1,743	15,550	102	15,652
Net income (Note 8)	—	—	—	—	—	—	13,371	—	13,371	95	13,466
Other comprehensive income (Note 6)	—	—	—	—	—	—	436	1,743	2,179	7	2,186
Cash dividends (Note 20)	—	—	—	—	—	—	(16,479)	—	(16,479)	(66)	(16,545)
Perpetual notes (Note 20)	—	—	—	—	—	—	—	—	—	4,165	4,165
Distribution charges on perpetual notes (Note 20)	—	—	—	—	—	—	(177)	—	(177)	—	(177)
Other equity reserves (Note 3)	—	—	—	—	—	827	—	—	827	—	827
Treasury shares under employee benefit trust (Note 3)	—	—	—	(940)	—	—	—	—	(940)	—	(940)

Acquisition and
dilution of
noncontrolling

interests	—	—	—	—	(114)	—	—	—	(114)	(222)	(336)
Balances as at December 31, 2017	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
Balances as at January 1, 2016	510	1,093	(6,505)	—	130,517	—	6,195	(18,202)	113,608	290	113,898
Total comprehensive income (loss):	—	—	—	—	—	—	20,249	(2,692)	17,557	151	17,708
Net income (Note 8)	—	—	—	—	—	—	20,006	—	20,006	156	20,162
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	243	(2,692)	(2,449)	(5)	(2,454)
Cash dividends (Note 20)	—	—	—	—	—	—	(22,961)	—	(22,961)	(81)	(23,042)
Acquisition and dilution of noncontrolling											
interests	—	—	—	—	(29)	—	—	—	(29)	2	(27)
Balances as at December 31, 2016	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537
Balances as at January 1, 2015	510	1,093	(6,505)	—	130,521	—	17,030	(8,285)	134,364	304	134,668
Total comprehensive income (loss):	—	—	—	—	—	—	22,065	(9,917)	12,148	20	12,168
Net income (Note 8)	—	—	—	—	—	—	22,065	—	22,065	10	22,075
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	—	(9,917)	(9,917)	10	(9,907)
Cash dividends (Note 20)	—	—	—	—	—	—	(32,900)	—	(32,900)	(21)	(32,921)
Acquisition and dilution of noncontrolling											
interests	—	—	—	—	(4)	—	—	—	(4)	(13)	(17)
Balances as at December 31, 2015	510	1,093	(6,505)	—	130,517	—	6,195	(18,202)	113,608	290	113,898

See accompanying Notes to Consolidated Financial Statements.

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017, 2016 and 2015

(in million pesos)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	14,569	22,071	26,638
Adjustments for:			
Depreciation and amortization (Note 9)	51,915	34,455	31,519
Asset impairment (Note 5)	8,258	11,042	9,690
Interest on loans and other related items – net (Note 5)	7,014	6,956	5,919
Impairment of investments (Notes 10 and 11)	2,562	5,515	5,166
Pension benefit costs (Notes 5 and 26)	1,607	1,775	1,888
Amortization of intangible assets (Notes 5 and 15)	835	929	1,076
Incentive plans (Notes 5 and 26)	827	—	—
Foreign exchange losses – net (Notes 9 and 27)	411	2,785	3,036
Accretion on financial liabilities – net (Note 5)	219	230	231
Losses (gains) on disposal of property and equipment (Note 9)	159	(1,360)	298
Gains on disposal of investment property (Note 13)	(80)	—	—
Gains on derivative financial instruments – net (Notes 5 and 28)	(533)	(996)	(420)
Interest income (Note 5)	(1,412)	(1,046)	(799)
Equity share in net earnings of associates and joint ventures (Notes 5 and 10)	(2,906)	(1,181)	(3,241)
Gain on disposal of investment in associates and joint ventures (Note 10)	(6,512)	(7,365)	(2,838)
Others	(2,443)	(400)	(1,968)
Operating income before changes in assets and liabilities	74,490	73,410	76,195
Decrease (increase) in:			
Trade and other receivables	(10,674)	(7,060)	(1,863)
Inventories and supplies	(542)	(917)	(1,122)
Prepayments	(212)	(5,634)	(617)
Advances and other noncurrent assets	162	(99)	147
Increase (decrease) in:			
Accounts payable	4,622	1,358	11,242
Accrued expenses and other current liabilities	(1,392)	755	4,969
Pension and other employee benefits	(5,841)	(5,863)	(10,642)
Customers' deposits	13	1	(8)
Other noncurrent liabilities	38	(10)	(13)
Net cash flows generated from operations	60,664	55,941	78,288
Income taxes paid	(4,550)	(6,965)	(8,544)
Net cash flows from operating activities	56,114	48,976	69,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	1,217	947	939
Dividends received (Note 10)	833	4,409	5,544
Proceeds from:			

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Maturity of short-term investments	20,254	1,557	1,469
Disposal of investments in associates and joint ventures	14,884	17,000	—
Collection of notes receivable	2,001	—	—
Disposal of available-for-sale financial investments	1,000	2,502	—
Disposal of property and equipment (Note 9)	484	1,889	334
Redemption of investment in debt securities	456	609	292
Disposal of investment properties	290	—	8
Payments for:			
Purchase of available-for-sale financial investments	(76)	(3,500)	(925)
Acquisition of intangible assets (Note 15)	(137)	(159)	(318)
Purchase of shares of noncontrolling interests – net of cash acquired	(266)	(22)	(2)
Interest capitalized to property and equipment (Note 9)	(816)	(566)	(370)
Purchase of investments in associates and joint ventures (Note 10)	(5,633)	(21,524)	(1,274)
Purchase of short-term investments	(18,424)	(2,734)	(2,194)
Purchase of property and equipment (Note 9)	(36,616)	(42,259)	(42,805)
Purchase of investment properties	—	(6)	—
Purchase of investment in debt securities	—	(20)	—
Purchase of subsidiaries – net of cash acquired	—	—	(151)
Decrease (increase) in advances and other noncurrent assets	(511)	(105)	215
Net cash flows used in investing activities	(21,060)	(41,982)	(39,238)

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Years Ended December 31, 2017, 2016 and 2015

(in million pesos)

	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 21)	26,255	40,569	44,367
Issuance of perpetual notes (Note 20)	4,165	—	—
Availments of long-term financing for capital expenditures	359	—	311
Derivative financial instruments (Note 28)	218	—	—
Issuance of capital stock	—	5	—
Payments for:			
Debt issuance costs (Note 21)	(153)	(185)	(396)
Distribution charges on perpetual notes (Note 20)	(177)	—	—
Interest – net of capitalized portion (Notes 5 and 21)	(7,076)	(6,512)	(5,407)
Long-term financing for capital expenditures	(8,094)	(6,040)	—
Cash dividends (Note 20)	(16,617)	(22,987)	(32,532)
Long-term debt (Note 21)	(39,199)	(19,650)	(17,084)
Derivative financial instruments (Note 28)	—	(541)	(638)
Redemption of shares	—	—	(1)
Obligations under finance lease	—	—	(5)
Net cash flows used in financing activities	(40,319)	(15,341)	(11,385)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON			
CASH AND CASH EQUIVALENTS	(552)	614	675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,817)	(7,733)	19,796
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
(Note 16)	38,722	46,455	26,659
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 16)	32,905	38,722	46,455

See accompanying Notes to Consolidated Financial Statements.

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, 2017. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2017. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and its affiliates, or JG Summit Group. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2017, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2017. See Note 20 – Equity – Voting Preferred Stock and Note 27 – Provisions and Contingencies – In the Matter of the

Wilson Gamboa Case and Jose M. Roy III Petition.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 30.5 million ADSs outstanding as at December 31, 2017.

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PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the largest and most diversified telecommunications company in the Philippines which delivers data and multi-media services nationwide. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as the bases for management's decision to allocate resources and evaluate operating performance. Our principal activities are discussed in Note 4 – Operating Segment Information.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015 were approved and authorized for issuance by the Board of Directors on March 27, 2018 as reviewed and recommended for approval by the Audit Committee on March 23, 2018.

Amendments to the Articles of Incorporation of PLDT

On April 12, 2016 and June 14, 2016, the Board of Directors and stockholders of PLDT, respectively, approved the following actions: (i) change in the name of the Company from Philippine Long Distance Telephone Company to PLDT Inc.; (ii) expansion of the purpose clause to expressly provide for such other purposes and powers incidental to or in furtherance of the primary purpose, including the power to do or engage in such activities required, necessary or expedient in the pursuit of lawful businesses or for the protection or benefit of the Company; and (iii) corresponding amendments to the First Article and Second Article of the Articles of Incorporation of the Company.

On July 29, 2016, the Amended Articles of Incorporation of the Company containing the aforementioned amendments was approved by the Philippine Securities and Exchange Commission, or Philippine SEC.

Amendments to the By-Laws of PLDT

On August 30, 2016, the Board of Directors, exercising its own power and the authority duly delegated to it by the stockholders of PLDT to amend the By-Laws, authorized and approved the following amendments: (i) change in the name of the Parent Company from Philippine Long Distance Telephone Company to PLDT Inc. both in the heading and Section 1, Article XV of the By-Laws; and (ii) change in the logo of the Company as stated in Section 1, Article XV of the By-Laws from desk telephone to the current triangle-shaped logo of the corporation. On November 14, 2016, the Amended By-Laws of the Parent Company containing the aforementioned amendments was approved by the Philippine SEC.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board, or IASB.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, certain available-for-sale financial investments, certain short-term investments and investment properties that are measured at fair values.

We changed the presentation of our consolidated income statements for the years ended December 31, 2016 and 2015 to conform with the 2017 presentation and classification. We did not present a consolidated statement of financial position at the beginning of the earliest comparative period since these certain reclassifications do not have any impact on our consolidated statements of financial position as at December 31, 2016 and January 1, 2016.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

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Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the “PLDT Group”) as at December 31, 2017 and 2016:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership			
			2017		2016	
			Direct	Indirect	Direct	Indirect
Wireless Smart: Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Cellular mobile services	100.0	—	100.0	—
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	—	100.0	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	—	100.0	—	100.0
Smart Money Holdings Corporation, or SMHC	Cayman Islands	Investment company	—	100.0	—	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective off shore financing and risk management activities for Smart	—	100.0	—	100.0
PH Communications Holdings Corporation	Philippines	Investment company	—	100.0	—	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	—	100.0	—	100.0
Francom Holdings, Inc.:	Philippines	Investment company	—	100.0	—	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services	—	100.0	—	100.0

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Voyager Innovations, Inc., or	Philippines	Mobile applications and digital platforms				
Voyager		developer	—	100.0	—	100.0
Voyager Innovations Holdings, Pte.		Investment company				
Ltd., or VIH, (formerly	Singapore					
eInnovations Holdings Pte.						
Ltd.,						
or eInnovations) ^(a)			—	100.0	—	100.0
Voyager Innovations Investments		Investment company				
Pte. Ltd., or VII, (formerly	Singapore					
Takatack Holdings Pte.						
Ltd.,						
or Takatack Holdings) ^(b)			—	100.0	—	100.0
Voyager Innovations		Development and maintenance of				
Singapore Pte. Ltd., or		IT-based solutions for				
VIS, (formerly Takatack	Singapore	communications and				
Technologies Pte. Ltd., or		e-Commerce				
Takatack Technologies) ^(c)		platforms	—	100.0	—	100.0
Takatack Malaysia Sdn. Bhd.,		Development, maintenance and support				
or Takatack Malaysia) ^(d)	Malaysia	services to enable the digital				
iCommerce Investments Pte.		commerce ecosystem	—	100.0	—	100.0
Ltd., or iCommerce) ^(e)	Singapore	Investment company	—	—	—	100.0
Voyager Fintech Ventures Pte.		Investment company				
Ltd., or Fintech Ventures						
(formerly eInnovations	Singapore					
Ventures Pte. Ltd., or						
eVentures) ^(f)			—	100.0	—	100.0
Fintqnologies Corporation,	Philippines		—	100.0	—	100.0

or FINTQ ^(g)		Development of financial technology innovations				
Fintq Inventures Insurance Agency Corporation ^(h)	Philippines	Insurance company	—	100.0	—	100.0
ePay Investments Pte. Ltd., or ePay	Singapore	Investment company	—	100.0	—	100.0
PayMaya Philippines, Inc. or PayMaya	Philippines	Provide and market certain mobile payment services	—	100.0	—	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops	Philippines	Market, sell and distribute payment solutions and other related services	—	100.0	—	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar ⁽ⁱ⁾	Myanmar	Investment company	—	100.0	—	—
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	—	85.0	—	85.0
Wifun, Inc., or Wifun ^(j)	Philippines	Software developer and selling of WiFi access equipment	—	100.0	—	100.0
Telesat, Inc. ^(k)	Philippines	Satellite communications services	100.0	—	100.0	—
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	—	99.6	—	99.6
Fixed Line PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	—	100.0	—
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	—	100.0	—
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	100.0	—	100.0	—
	Philippines	Data and network services	100.0	—	100.0	—

Smart-NTT Multimedia, Inc. ^(k)					
PLDT-Philcom, Inc., or Philcom, and		Telecommunications services			
		Philippines			
Subsidiaries, or Philcom Group			100.0	—	100.0 —
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Talas Data Intelligence, Inc., or Talas		Business infrastructure and solutions;				
	Philippines	intelligent data processing and implementation services and data				
		analytics insight generation	100.0	—	100.0	—
ePLDT, Inc., or ePLDT:		Information and communications				
		infrastructure for internet-based				
	Philippines	services, e-commerce, customer				
		relationship management and IT				
		related services	100.0	—	100.0	—
IP Converge Data Services, Inc.,		Information and communications				
or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	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,	Philippines	Internet-based purchasing, IT consulting				
and Subsidiaries, or AGS Group		and professional services	—	100.0	—	100.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-				
		added services, or VAS	—	67.0	—	67.0
netGames, Inc. ⁽¹⁾	Philippines	Gaming support services	—	57.5	—	57.5
Digitel:	Philippines	Telecommunications services	99.6	—	99.6	—
Digitel Information Technology	Philippines	Internet services	—	99.6	—	99.6

Services, Inc. ^(k)						
PLDT-Maratel, Inc., or Maratel Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications services	98.0	—	98.0	—
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Telecommunications, infrastructure and related VAS	75.0	—	75.0	—
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	Philippines	Air transportation business	65.0	—	65.0	—
Others						
PLDT Global Investments Holdings, Inc., or PGIH	British Virgin Islands	Internal distributor of Filipino channels	64.6	—	64.6	—
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiaries	Philippines	and content	100.0	—	100.0	—
Mabuhay Investments Corporation, or MIC ^(k)	Philippines	Investment company	100.0	—	100.0	—
PLDT Global Investments Corporation, or PGIC	Singapore	Investment company	67.0	—	67.0	—
PLDT Communications and Energy Ventures, Inc., or PCEV	British Virgin Islands	Investment company	—	100.0	—	100.0
	Philippines		—	99.9	—	99.9

(a) On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd.

(b) On December 29, 2017, the ACRA of Singapore approved the change in business name of Takatack Holdings Pte. Ltd. to Voyager Innovations Investments Pte. Ltd.

(c) On March 6, 2018, the ACRA of Singapore approved the change in business name of Takatack Technologies Pte. Ltd. to Voyager Innovations Singapore Pte. Ltd.

(d) On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing.

(e) On December 14, 2017, VIH sold its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00.

(f) On January 12, 2016, the ACRA of Singapore approved the change in business name of eVentures to Voyager Fintech Ventures Pte. Ltd.

(g)

On April 27, 2016, Voyager incorporated its financial technology unit FINTQ to focus on mobile-first financial technology platforms.

- (h) On December 19, 2016, Fintq Inventures Insurance Agency Corporation was incorporated in the Philippines to engage in business as an insurance agent for the distribution, marketing and sale of insurance products such as life, non-life, accident and health insurance and pre-need projects and services.
- (i) On July 25, 2017, ePay Investments Myanmar, Ltd. was incorporated in Myanmar to engage in the business of providing support services on the development and provision of digital technology.
- (j) On November 25, 2015, Smart acquired the remaining 13% noncontrolling shares of Wifun for a total purchase price of Php10 million, of which Php7 million and Php3 million were paid on November 25, 2015 and February 29, 2016, respectively.
- (k) Ceased commercial operations.
- (l) Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which PLDT obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or have rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and impact is presented as part of other equity reserves.

If PLDT loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Divestment of CURE

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

- CURE is obligated to sell its Red Mobile business to Smart consisting primarily of its subscriber base, brand and fixed assets; and

- Smart is obligated to sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 Megahertz, or MHz, of 3G frequency in the 2100 band and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its Red Mobile business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE's Red Mobile trademark to Smart; (b) the transfer of CURE's existing Red Mobile subscriber base to Smart; and (c) the sale of CURE's fixed assets to Smart at net book value.

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

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

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

Incorporation of Talas

On June 9, 2015, the PLDT's Board of Directors approved the incorporation of Talas, a wholly-owned subsidiary of PLDT. Total subscription in Talas amounted to Php250 million, of which Php62.5 million was paid on May 25, 2015, for purposes of incorporation, and the balance of Php187.5 million was paid on May 16, 2016. PLDT provided Talas an additional equity investment of Php120 million, Php150 million and Php115 million on January 31, 2017, February 28, 2017 and March 31, 2017, respectively, as approved by the PLDT's Board of Directors in June 2016.

Talas is tasked with unifying the digital data assets of the PLDT Group which involves the implementation of the Intelligent Data Fabric, exploration of revenue opportunities and the delivery of the big data capability platform.

Incorporation of PLDT Capital Pte. Ltd., or PLDT Capital

PLDT Capital was incorporated as a wholly-owned subsidiary of PLDT Online Investments Pte. Ltd., or PLDT Online, on August 12, 2015. As an investment arm, PLDT Capital is envisioned to be an important pillar in supporting the PLDT Group's digital pivot through collaboration with world-class pioneering companies in Silicon Valley, USA and around the world.

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In 2015, PLDT Capital made the following investments:

- Investment in Phunware, Inc., or Phunware;
- Investment in AppCard, Inc., or AppCard; and
- Investment in Matrixx Software, Inc., or Matrixx.

See Note 10 – Investments in Associates and Joint Ventures and Note 11 – Available-for-Sale Financial Investments.

Agreement between PLDT Capital and Gohopscotch, Inc., or Hopscotch

On April 15, 2016, PLDT Capital and Hopscotch entered into an agreement to market and exclusively distribute Hopscotch's mobile solutions in Southeast Asia through Gohopscotch Southeast Asia Pte. Ltd., a Singapore company incorporated on March 1, 2016, of which PLDT Capital and Hopscotch own 90% and 10% of the equity interests, respectively. The Hopscotch mobile-platform technology allows for the rapid development of custom mobile applications for sports teams, live events, and brands to create a memorable and monetizable fan experience and also increase mobile advertising revenue.

Transfer of DMPI's Sun Postpaid Cellular and Broadband Subscription Assets to Smart

On August 1, 2016, the Board of Directors of Smart and DMPI approved the sale/transfer of DMPI's trademark and subscribers (both individual and corporate) including all of DMPI's assets, rights and obligations directly or indirectly connected to its postpaid cellular and broadband subscribers. The transfer is in accordance with the integration of the wireless business to simplify business operations, as well as to provide flexibility in offering new bundled/converged products and enhanced customer experience. The transfer was completed on November 1, 2016, after which only its prepaid cellular business remains with DMPI.

Extension of Smart's Congressional Franchise

On March 27, 1992, Philippine Congress granted a legislative franchise to Smart under Republic Act, or R.A., No. 7294, to establish, install, maintain, lease and operate integrated telecommunications, computer, electronic services, and stations throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7294 took effect on April 15, 1992, or 15 days from the date of its publication in at least two newspapers of general circulation in the Philippines.

On April 21, 2017, R.A. No. 10926, which effectively extends Smart's franchise until 2042, was signed into law by the President of the Republic of the Philippines. The law was published in a newspaper of general circulation on May 4, 2017 and took effect on May 19, 2017.

Decrease in Authorized Capital Stock and Amendment of the Articles of Incorporation of MIC

On May 30, 2017, the Board of Directors of MIC approved the (a) reduction of MIC's authorized capital stock from Php2,028 million divided into 20 million shares to Php1,602 million by decreasing the par value per share from Php100.00 to Php79.00, or the Decrease in Capital, and (b) the corresponding amendment to the Seventh Article of the Articles of Incorporation of MIC, or the Amendment of Articles. On the same date, the Decrease in Capital and Amendment of Articles were approved by the stockholders representing at least two thirds of the outstanding shares of MIC. The application for approval of the Decrease in Capital and Amendments of Articles was filed with the Philippine SEC on July 11, 2017 and was approved on December 18, 2017.

Transfer of SBI's Home Broadband Subscription Assets to PLDT

On September 26, 2017, the Board of Directors of PLDT and SBI, a PLDT subsidiary providing wireless broadband service, approved the sale and transfer of SBI's trademark and subscribers (both individual and corporate), and all of SBI's assets, rights and obligations directly or indirectly connected to its HOME Ultra and HOMEBRO Wimax businesses to PLDT. The transfer was effective January 1, 2018. Subscription assets and trademark are amortized over two years and 10 years, respectively, using the straight-line method of accounting.

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SBI's businesses are currently being managed by PLDT pursuant to the Operations Maintenance and Management Agreement between PLDT and SBI effective October 1, 2012. Subsequent to the transfer, SBI will continue to provide broadband services to its existing Canopy subscribers using a portion of Smart's network. The transfer is in accordance with the said agreement and in order to achieve the expected benefits, as follows:

- Seamless upgrades of PLDT products;
- Flexibility for business in cross-selling of PLDT products; and
- Enhanced customer experience.

On December 18, 2017, PLDT paid the partial consideration to SBI amounting to Php1,294 million. The remaining balance of Php1,152 million is payable in December 2018.

This transaction was eliminated in our consolidated financial statements.

Transfer of iCommerce to PLDT Online

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement, or SPA, whereby VIH sold all of its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US\$8.6 million. In consideration, PLDT Online paid VIH US\$8.9 million inclusive of interest as at November 30, 2017. See Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – iCommerce's Investment in PHIH.

Perpetual Notes

In 2017, Smart issued various perpetual notes, including Php1,100 million perpetual notes to Rizal Commercial Banking Corporation, or RCBC, Trustee of PLDT's Redemption Trust Fund. See Note 20 – Equity – Perpetual Notes.

Agreement between PLDT and Smart and Amdocs

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

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the PLDT Group has adopted the following amendments starting January 1, 2017. Except for amendments to International Accounting Standards, or IAS, 7 and early adoption of amendments to IFRS 2, the adoption of these amendments did not have any significant impact on PLDT Group's financial position or performance.

- Amendments to IFRS 12, Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)

- Amendments to IAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses

- Amendments to IAS 7, Statement of Cash Flows, Disclosure Initiative

We have provided the required information in Note 29 – Notes to the Statement of Cash Flows to our consolidated financial statements. As allowed under the transition provisions of the standard, we did not present comparative information for the year ended December 31, 2016.

- Amendments to IFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions

On January 1, 2017, the PLDT Group elected to adopt early the June 2016 amendments to IFRS 2, Share-based Payment. The amendments to IFRS 2 which are effective beginning on or after January 1, 2018

apply where tax laws or regulations oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf.

The exception in IFRS 2 applies and the transaction is accounted for as equity-settled in its entirety (rather than being divided into an equity-settled portion and a cash-settled portion) if the transaction would have been classified as equity-settled in the absence of the net settlement feature. Since the PLDT Group is under the tax regime where it is required to withhold an amount to meet the tax liability, the amendment to IFRS 2 regarding the classification of a share-based payment transaction with net settlement features for withholding tax obligations applies to the arrangement. We treat the Transformation Incentive Plan, or the TIP, as equity-settled in its entirety.

Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, we elect whether to measure the components of the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and review the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain on a bargain purchase is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional

assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless

indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control nor joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange of managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes directly attributable transaction costs. The details of our investments in associates are disclosed in Note 10 – Investments in Associates and Joint Ventures – Investments in Associates.

Under the equity method, an investment in an associate is carried at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statement of comprehensive income and consolidated statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interests in those associates.

Our share in the profits or losses of our associates is included under “Other income (expenses)” in our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or have made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates’ accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in our consolidated financial statements.

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Joint Arrangements

Joint arrangements are arrangements with respect to which we have joint control, established by contracts requiring unanimous consent from the parties sharing control for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

• **Joint operation** – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation in accordance with the IFRS applicable to the particular assets, liabilities and transactions.

• **Joint venture** – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, the same as our accounting for investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. Our investment in the joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Upon loss of joint control over the joint venture, we measure and recognize our retained investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate with no remeasurement.

Current Versus Noncurrent Classifications

We present assets and liabilities in our consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

• Expected to be realized or intended to be sold or consumed in the normal operating cycle;

• Held primarily for the purpose of trading;

• Expected to be realized within twelve months after the reporting period; or

• Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

• It is expected to be settled in the normal operating cycle;

• It is held primarily for the purpose of trading;

• It is due to be settled within twelve months after the reporting period; or

• There is no unconditional right to defer the settlement of the liability for at least twelve months after the period.

We classify all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering

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products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for the subsidiaries discussed below) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, Digitel Capital Philippines Ltd., or DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. dollar; the functional currency of eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean dollar; the functional currency of Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL, is the Chinese renminbi; the functional currency of AGS Malaysia and Takatack Malaysia, is the Malaysian ringgit; the functional currency of AGS Indonesia is the Indonesian rupiah; and the functional currency of ePay Myanmar is the Myanmar kyat. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. Upon disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IAS 39, Financial Instruments: Recognition and Measurement, are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each reporting date.

Financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in fair value recognized in our consolidated income statement under “Other income (expenses) - Gains (losses) on derivative financial instruments – net” for derivative instruments (negative net changes in fair value) and “Other income (expenses) – net” for non-derivative financial assets (positive net changes in fair value). Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under “Interest income” and “Other income (expenses) – net”, respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the entity’s key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at

FVPL. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Our financial assets at FVPL include certain short-term investments and derivative financial assets as at December 31, 2017 and 2016. See Note 28 – Financial Assets and Liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial measurement, such financial assets are carried at amortized cost using the effective interest rate, or EIR, method less impairment. This method uses an EIR that

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exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recorded in “Interest income” in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include portions of investment in debt securities and other long-term investments, short-term investments, trade and other receivables and portions of advances and other noncurrent assets as at December 31, 2017 and 2016. See Note 12 – Investment in Debt Securities and Other Long-term Investments, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables and Note 28 – Financial Assets and Liabilities.

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned is recorded in “Other income (expenses) – Interest income” in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portions of investment in debt securities and other long-term investments as at December 31, 2017 and 2016. See Note 12 – Investment in Debt Securities and Other Long-term Investments and Note 28 – Financial Assets and Liabilities.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the “Net gains (losses) on available-for-sale financial investments – net of tax” account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in “Other income (expenses) – net” in our consolidated income statement. Available-for-sale investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

Interest earned on holding available-for-sale financial investments are included under “Other income (expenses) – Interest income” using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under “Other income (expenses) – net” when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

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For a financial investment reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to our consolidated income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2017 and 2016. See Note 11 – Available-for-Sale Financial Investments and Note 28 – Financial Assets and Liabilities.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments as defined by IAS 39. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under “Gains (losses) on derivative financial instruments – net” for derivative instruments and “Other income (expenses) – net” for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial liabilities is provided internally on that basis to the entity’s key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only-currency swaps and interest rate swaps as at December 31, 2017 and 2016. See Note 28 – Financial Assets and Liabilities.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under “Other income (expenses) – Financing costs – net” in our consolidated income statement.

Our other financial liabilities include interest-bearing financial liabilities, customers’ deposits, dividends payable and accrual for long-term capital expenditures, accounts payable, and accrued expenses and other current liabilities” (except for statutory payables) as at December 31, 2017 and 2016. See Note 21 –

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Interest-bearing Financial Liabilities, Note 22 – Deferred Credits and Other Noncurrent Liabilities, Note 23 – Accounts Payable and Note 24 – Accrued Expenses and Other Current Liabilities.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the EIR.

“Day 1” difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a “Day 1” difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the “Day 1” difference amount.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Subscribers are permanently disconnected after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, payment history and status of the account.

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Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances based on age and payment habits, as applicable.

Collective impairment

Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

Other subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Allowance for Doubtful Accounts, Note 17 – Trade and Other Receivables and Note 28 – Financial Assets and Liabilities – Impairment Assessments for further disclosures relating to impairment of financial assets.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses, or ECL, that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of

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future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgment. We treat “significant” generally as decline of 20% or more below the original cost of investment, and “prolonged” as greater than 12 months assessed against the period in which the fair value has been below its original cost. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If available-for-sale equity security is impaired, any further decline in the fair value at subsequent reporting date is recognized as impairment. Therefore, at each reporting period, for an equity security that was determined to be impaired, additional impairments are recognized for the difference between fair value and the original cost, less any previously recognized impairment. Impairment losses on equity investments are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in our consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Other income (expenses) – Interest income” in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable as part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (1) the right to receive cash flows from the asset has expired; or (2) we have transferred the right to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the right to receive cash flows from an asset or have entered into a “pass-through” arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a

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cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with foreign currency fluctuations and interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See Note 28 – Financial Assets and Liabilities.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the “Other income (expenses) – Gains (losses) on derivative financial instruments – net” in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly

effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

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Hedges which meet the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the consolidated income statement as financing cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See Note 28 – Financial Assets and Liabilities for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an interest rate swap agreement to hedge our interest rate exposure and a long-term principal only-currency swap agreement to hedge our foreign exchange exposure on certain outstanding loan balances. See Note 28 – Financial Assets and Liabilities.

Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

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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

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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.

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Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

For property and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets, Note 9 – Property and Equipment and Note 15 – Goodwill and Intangible Assets for further disclosures relating to impairment of non-financial assets.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement. See Note 10 – Investments in Associates and Joint Ventures for further disclosures relating to impairment of non-financial assets.

Goodwill

Goodwill is tested for impairment annually as at December 31, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less

than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible asset with indefinite useful life

Intangible asset with indefinite useful life is not amortized but is tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset or the CGU, and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

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See Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets and Note 15 – Goodwill and Intangible Assets – Impairment testing of goodwill and intangible assets with indefinite useful life for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

Investment in debt securities consists of time deposits and government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized under “Other income (expenses) – Interest income” in our consolidated income statement.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

Fair Value Measurement

We measure financial instruments such as derivatives, available-for-sale financial investments and certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in Note 28 – Financial Assets and Liabilities. The fair values of investment properties are disclosed in Note 13 – Investment Properties.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to us.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in our consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to

the fair value measurement as a whole: (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in our consolidated financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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We determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as certain short-term investments and investment properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, we analyze the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per our accounting policies. For this analysis, we verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are acting as a principal when we have the significant risks and rewards associated with the rendering of telecommunication services. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be rendered separately or bundled with goods or other services. The specific recognition criteria are as follows:

Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from postpaid cellular voice, short messaging services, or SMS, and data services through the postpaid plans of Smart and Sun, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognize on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in

addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid service revenues arise from the usage of airtime load from channels and prepaid cards provided by Smart, TNT, SmartBro and Sun Broadband brands. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e., free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

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Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Non-recurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average length of customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

Connecting carriers

Interconnection revenues for call termination, call transit and network usages are recognized in the period in which the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers.

Value-Added Services, or VAS

Revenues from VAS include MMS, downloading and streaming of content, applications and other digital services and infotext services. The amount of revenue recognized is net of payout to content provider's share in revenue. Revenue is recognized upon service availment.

Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to retailers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Multiple-deliverable arrangements

In revenue arrangements, which involve bundled sales of mobile devices, SIM cards/packs and accessories (non-service component) and telecommunication services (service component), the total arrangement consideration is allocated to each component based on their relative fair value to reflect the substance of the transaction. Revenue from the sale of non-service component are recognized when the goods are delivered while revenues from telecommunication services component are recognized when the services are provided to subscribers. When fair value is not directly observable, the total consideration is allocated using residual method.

Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service are performed.

Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as “Cost of sales” in our consolidated income statement.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

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Dividend income

Revenue is recognized when our right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain to be received if the entity settles the obligation. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in our consolidated income statements.

Retirement Benefits

PLDT and certain of its subsidiaries are covered under R.A. 7641 otherwise known as “The Philippine Retirement Law”.

Defined benefit pension plans

PLDT has separate and distinct retirement plans for itself and majority of its Philippine-based operating subsidiaries, administered by the respective Funds’ Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries.

Retirement costs consist of the following:

- Service cost;
- Net interest on the net defined benefit asset or obligation; and
- Remeasurements of net defined benefit asset or obligation.

Service cost (which includes current service costs, past service costs and gains or losses on curtailments and non-routine settlements) is recognized as part of “Selling, general and administrative expenses – Compensation and employee benefits” account in our consolidated income statement. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit asset or obligation. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they occur. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or obligation comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit costs and other employee benefits), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price and in the case of unquoted securities, the discounted cash flow using the income approach. The value of any defined benefit asset

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recognized is restricted to the asset ceiling which is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See Note 26 – Employee Benefits – Defined Benefit Pension Plans for more details.

Defined contribution plans

Smart and certain of its subsidiaries maintain a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees' monthly salaries and provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641.

Accordingly, Smart and certain of its subsidiaries account for their retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. Smart and certain of its subsidiaries determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense (income) and other expenses (income) related to the defined benefit plan are recognized in our profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in our other comprehensive income.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in our profit or loss. Gains or losses on the settlement of the defined benefit plan are recognized when the settlement occurs. See Note 26 – Employee Benefits – Defined Contribution Plans for more details.

Other Long-term Employee Benefits

Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in our profit or loss.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period and is determined using the projected unit credit method. See Note 26 – Employee Benefits – Other Long-term Employee for more details.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term using the EIR and lease amortization is accounted for as reduction of lease receivable.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term using the EIR.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

Deferred income tax

Deferred income tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction

that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

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Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in “Other comprehensive income” account is included in our statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in our profit or loss.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) where receivables and payables are stated with the amount of VAT included.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in our consolidated financial statements but are disclosed in the notes to our consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post period-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in our consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes to our consolidated financial statements when material.

Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value in our consolidated statement of changes in equity.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value in our consolidated statement of changes in equity and statement of financial position.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value in our consolidated statement of changes in equity.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments that are not recognized in our profit or loss as required or permitted by IFRS.

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Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective. Except for IFRS 9, Financial Instruments, IFRS 15, Revenue from Contracts with Customers, and IFRS 16, Leases, as discussed further below, we do not expect the adoption of these standards and amendments to IFRS to have a significant impact on our consolidated financial statements.

Effective beginning on or after January 1, 2018

- Amendments to IFRS 4, Insurance Contracts, Applying IFRS 9, Financial Instruments, with IFRS 4
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)
- Amendments to IAS 40, Investment Property, Transfers of Investment Property
- Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration
- IFRS 1, First-time Adoption of International Financial Reporting Standards (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)

• IFRS 9, Financial Instruments

In July 2014, the FRSC issued the final version of IFRS 9 Financial Instruments that replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

We will adopt the new standard on the required effective date and will not restate comparative information. During 2017, we have performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available in 2018 when we adopt IFRS 9.

Classification and measurement

IFRS 9 requires that we classify financial assets based on the assessment of the contractual cash flows assessment characteristics and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

We assessed that the contractual cash flows of our debt financial assets are solely payments of principal and interest, and are expected to be under a hold-to-collect business model, with the exception of one portfolio which is expected to be under a hold-to-collect-and-sell business model. Consequently, debt financial assets under a business model of hold-to-collect and hold-to-collect-and-sell are expected to be measured at amortized cost and fair value through other comprehensive income, respectively.

We expect to continue measuring at fair value all financial assets currently held at fair value. However, quoted equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The equity shares in non-listed companies are intended to be held for the foreseeable future.

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Impairment

IFRS 9 requires to record expected credit losses, or ECL, for all debt securities not classified as at fair value through profit or loss, together with contract assets, loan commitments and financial guarantee contracts. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL is recognized earlier under IFRS 9.

The objective of the new impairment model is to record lifetime losses on all financial assets which have experienced a significant increase in credit risk from initial recognition. As a result, ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on our internal credit assessment, the counterparty is determined to require close monitoring or with well-defined credit weakness.

Financial assets have the following staging assessment, depending on the quality of the credit exposures:

For non-credit-impaired financial assets:

Stage 1 financial assets are comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. We recognize a 12-month ECL for Stage 1 financial assets.

Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. We recognize a lifetime ECL for Stage 2 financial assets.

For credit-impairment financial assets:

Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial assets.

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IFRS 9 provides some operational simplifications for short-term trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, IFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL, so long as these methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

ECL is a function of the risk of a default occurring and the magnitude of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The risk of a default occurring represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 assets or lifetime horizon for Stages 2 and 3 assets. The risk of a default occurring for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. We segmented the credit exposures based on homogenous risk characteristics and applied a specific ECL methodology for each. The methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

The magnitude of default represents the amount that may not be recovered in the event of default and is determined based on the historical cash flow recoveries and reasonable and supportable information about future economic conditions, where appropriate.

We will incorporate forward-looking information into both assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and measurement of ECL. A broad range of forward-looking information will be considered as economic inputs such as the Philippine Gross Domestic Product, Retail Price Index, Unemployment Rates and other economic indicators.

We plan to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime ECL, depending on the extent of the deterioration of the credit quality from origination. The new impairment requirements will impact the current impairment methodologies of the debt securities classified as at amortized cost or at fair value through other comprehensive income and the corresponding impairment allowance levels.

Hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. We have chosen not to retrospectively apply IFRS 9 on transition to the hedges where we excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the consolidated financial statements.

We have implemented existing governance framework, ensuring appropriate controls and validations are in place over key processes and judgments in implementing IFRS 9. We are continuously refining our internal controls and processes which are relevant in the proper implementation of IFRS 9.

IFRS 15, Revenue from Contracts with Customers
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IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

We will adopt the new standard using the modified retrospective approach, i.e. contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of the equity. Therefore, prior-year comparative information has not been restated and continues to be reported under IAS 18, Revenue Recognition. We have assessed the estimated impact that the initial application of IFRS 15 will have on our consolidated financial statements. The estimated impact of the adoption of this standard on our consolidated financial statement as at January 1, 2018 is based on assessments undertaken to date and is summarized below.

		Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at January 1, 2018
Consolidated Statements of Financial Position	2017 As Reported (in million pesos)		
Noncurrent Assets			
Contract assets – net of current portion	—	1,094	1,094
Deferred income tax assets – net	30,466	54	30,520
Current Assets			
Contract assets	—	2,783	2,783
Equity			
Retained earnings	634	2,588	3,222
Noncurrent Liabilities			
Contract liabilities – net of current portion	—	82	82
Deferred income tax liabilities – net	3,366	1,164	4,530
Current Liabilities			
Contract liabilities	—	97	97

Sale of goods

For contracts with customers in which the sale of non-service component is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on our revenue and profit or loss. We expect the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Multiple-deliverable arrangements

In revenue arrangements involving bundled sales of non-service and service components, revenue is currently recognized by allocating the total consideration to each component based on their relative fair value. Revenue from the sale of non-service component are recognized when the goods are delivered while revenues from the provision of service component are recognized when the services are provided to subscribers. When fair value is not directly observable, the total consideration is allocated using residual method.

Under IFRS 15, the total consideration in multiple-deliverable arrangements will be allocated to each performance obligation based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which we sell the non-service component or rendering of the service component in separate transactions. We concluded that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by us. Consequently, under IFRS 15, we will continue to recognize revenue for these service contracts/service components of bundled contracts over time rather than at a point of time.

We assessed that when IFRS 15 is adopted using modified retrospective approach, the opening balance of our retained earnings, contract assets and deferred income tax liabilities – net will increase by Php2,979 million, Php4,256 million and Php1,277 million, respectively, due to early recognition of revenue from non-service component as at January 1, 2018.

The opening balance of our retained earnings will decrease by Php125 million, and contract liabilities and deferred income tax assets – net will increase by Php179 million and Php54 million, respectively, due to contracts without subsidies as at January 1, 2018.

Currently, we do not account for the significant financing component since most of the handsets are subsidized and has insignificant allocated transaction price using residual method. Under IFRS 15, we must determine whether there is a significant financing component in its contracts. An entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The opening balance of our retained earnings, contract assets and deferred income tax liabilities – net will decrease by Php266 million, Php379 million and Php113 million, respectively, due to financing component of existing contracts as at January 1, 2018.

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in our consolidated financial statements. Many of the disclosure requirements in IFRS 15 are new and we have assessed that the impact of some of these disclosures requirements will be significant. In particular, we expect that the notes to the consolidated financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as required by IFRS 15, we will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

Deferred effectivity

- Amendments to IFRS 10 and IAS 28, Long-term Interests in Associates and Joint Ventures

Effective beginning on or after January 1, 2019

- Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately

- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

We are currently assessing the impact of adopting this interpretation.

✦Amendments to IFRS 9, Prepayment Features with Negative Compensation

The amendments to IFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost at fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

We are currently assessing the impact of adopting this amendment.

✦IFRS 16, Leases

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt IFRS 16 but not before an entity applies IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. We are currently assessing the impact of adopting this standard.

✦Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures

The amendments to IAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

✦IFRS 17, Insurance Contracts

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issued them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

Judgments

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for (a) SMHC, FECL Group, PLDT Global and certain of its subsidiaries, DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar; (b) eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, which uses the Singaporean dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; (e) AGS Indonesia, which uses the Indonesian rupiah; and (f) ePay Myanmar, which uses the Myanmar kyat.

Accounting for investments in MediaQuest Holdings, Inc., or MediaQuest, through Philippine Depositary Receipts, or PDRs

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

Based on our judgment, at the PLDT Group level, ePLDT's investments in PDRs gives ePLDT a significant influence over Satventures, Hastings and Cignal TV as evidenced by provision of essential technical information and material transactions among PLDT, Smart, Satventures, Hastings and Cignal TV, and thus are accounted for as investments in associates using the equity method.

See related discussion on Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs.

Leases

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on IAS 17. Total lease expense amounted to Php7,016 million, Php6,632 million and Php6,078 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total finance lease obligations amounted to Php679 thousand and Php994 thousand as at December 31, 2017 and 2016, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases and Note 28 – Financial Assets and Liabilities – Liquidity Risk.

Accounting for investments in Phunware and AppCard

In 2015, PLDT Capital subscribed to preferred shares of Phunware and AppCard. See Note 10 – Investments in Associates and Joint Ventures. The investments in Phunware and AppCard allow PLDT Capital to designate one director to the five-seat board of each of Phunware and AppCard for as long as PLDT Capital beneficially owns a specified percentage of Phunware or AppCard shares, as applicable.

Based on our judgment, at the PLDT Group Level, PLDT Capital's investments in preferred shares give PLDT a significant influence over Phunware and AppCard as evidenced by the board seats assigned to us. This gives us the authority to participate in the financial and operating policy decisions of Phunware and AppCard but neither control nor joint control of those policies. Hence, the investments are accounted for as investment in associates.

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Accounting for investments in Vega Telecom Inc., or VTI, Bow Arken Holdings Company, or Bow Arken, and Brightshare Holdings, Inc., or Brightshare

On May 30, 2016, PLDT acquired a 50% equity interest in each of VTI, Bow Arken and Brightshare. See related discussion on Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures. Based on the Memorandum of Agreement, PLDT and Globe Telecom, Inc., or Globe, each have the right to appoint half the members of the Board of Directors of each of VTI, Bow Arken and Brightshare, as well as the (i) co-Chairman of the Board; (ii) co-Chief Executive Officer and President; and (iii) co-Controller where any matter requiring their approval shall be deemed passed or approved if the consents of both co-officers holding the same position are obtained. All decisions of each Board of Directors may only be approved if at least one director nominated by each of PLDT and Globe votes in favor of it.

Based on these rights, PLDT and Globe have joint control over VTI, Bow Arken and Brightshare, which is defined in IFRS 11, Joint Arrangements, as a contractually agreed sharing of control of an arrangement and exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Consequently, PLDT and Globe classified the joint arrangement as a joint venture in accordance with IFRS 11 given that PLDT and Globe each have the right to 50% of the net assets of VTI, Bow Arken and Brightshare and their respective subsidiaries.

Accordingly, PLDT accounted for the investment in VTI, Bow Arken and Brightshare using the equity method of accounting in accordance with IAS 28, Measuring an Associate or Joint Venture. Under the equity method of accounting, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

Impairment of available-for-sale equity investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months assessed against the period in which the fair value has been below its original cost.

Based on our judgment, the continuing decline in fair value of our investment in Rocket Internet SE, or Rocket Internet, is considered significant as the cumulative net losses from changes in fair value represents more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million and Php10,505 million as at December 31, 2017 and 2016, respectively. Impairment losses charged in our consolidated income statements amounted to Php540 million, Php5,381 million and Php5,124 million for the years ended December 31, 2017, 2016 and 2015, respectively. See related discussion on Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in our consolidated financial statements within the next financial year are discussed below. We

based our estimates and assumptions on parameters available when our consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the value in use of the CGUs to which these assets are allocated. The value in use calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 15 – Goodwill

and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life for the key assumptions used to determine the value in use of the relevant CGUs.

Determining the recoverable amount of property and equipment, investments in associates and joint ventures, intangible assets, prepayments and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future impairment charges under IFRS.

Total asset impairment on noncurrent assets amounted to Php3,913 million, Php1,074 million and Php5,788 million for the years ended December 31, 2017, 2016 and 2015, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities.

The carrying values of our property and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 15 – Goodwill and Intangible Assets and Note 19 – Prepayments, respectively.

Estimating useful lives of property and equipment

We estimate the useful lives of each item of our property and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property and equipment is also based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of each assets are reviewed every year-end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property and equipment would increase our recorded depreciation and decrease the carrying amount of our property and equipment.

In 2017, we shortened the estimated useful lives of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications. Additional depreciation recognized in 2017 amounted to Php19,481 million.

The total depreciation and amortization of property and equipment amounted to Php51,915 million, Php34,455 million and Php31,519 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php186,907 million and Php203,188 million as at December 31, 2017 and 2016, respectively. See Note 2 – Summary of Significant

Accounting Policies, Note 4 – Operating Segment Information and Note 9 – Property and Equipment.

Estimating useful lives of intangible assets with finite lives

Intangible assets with finite lives are amortized over their expected useful lives using the straight-line method of amortization. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets with finite lives amounted to Php835 million, Php929 million and Php1,076 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of intangible assets with finite lives amounted to Php3,699 million and Php4,396 million as at

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December 31, 2017 and 2016, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 15 – Goodwill and Intangible Assets.

Business combinations

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance and position. See Note 14 – Business Combination.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php5,495 million and Php5,829 million as at December 31, 2017 and 2016, respectively. Total consolidated benefit from deferred income tax amounted to Php2,738 million, Php4,134 million and Php4,710 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total consolidated recognized net deferred income tax assets amounted to Php30,466 million and Php27,348 million as at December 31, 2017 and 2016, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 7 – Income Taxes.

Estimating allowance for doubtful accounts

If we assessed that there was objective evidence that an impairment loss was incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on all available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristics, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables recognized in our consolidated income statements amounted to Php3,438 million, Php8,027 million and Php3,391 million for the years ended December 31, 2017, 2016 and 2015, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php33,761 million and Php24,436 million as at December 31, 2017 and 2016, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 17 – Trade and Other Receivables.

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Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See Note 26 – Employee Benefits. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs amounted to Php1,610 million, Php1,775 million and Php1,895 million for the years ended December 31, 2017, 2016 and 2015, respectively. The prepaid benefit costs amounted to Php400 million and Php261 million as at December 31, 2017 and 2016, respectively. The accrued benefit costs amounted to Php8,997 million and Php11,206 million as at December 31, 2017 and 2016, respectively. See Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments and Note 26 – Employee Benefits.

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP, of which approximately 211 thousand shares are allotted for the 2017 annual grant and will be released to selected participants subject to the achievement of the consolidated core net income target for the year 2017. On March 7, 2018, the Executive Compensation Committee, or ECC, of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP. As at March 27, 2018, a total of 553 thousand PLDT common shares have been acquired by the Trustee. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php827 million as at December 31, 2017 and is presented as equity reserves in our consolidated statement of financial position.. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 26 – Employee Benefits – Other Long-term Employee Benefits.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,630 million and Php1,582 million as at December 31, 2017 and 2016, respectively. See Note 22 – Deferred Credits and Other Noncurrent Liabilities.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimates of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See Note 27 – Provisions and Contingencies.

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Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation.

Revenues earned from multiple element arrangements offered by our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with IAS 18, Revenue Recognition, and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract/lock-in period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount as determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

Determination of fair values of financial assets and financial liabilities

Where the fair value of financial assets and financial liabilities recorded in our consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2016 amounted to Php8,120 million and Php160,990 million, respectively. See Note 28 – Financial Assets and Liabilities.

4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group). The operating results of these operating segments are regularly reviewed by the Management Committee to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- **Wireless** – wireless telecommunications services provided by Smart and DMPI, our mobile service providers; Voyager and certain subsidiaries, our mobile applications and digital platforms developer and mobile financial services provider; SBI and PDSI, our wireless broadband service providers; ACeS Philippines, our satellite information and messaging services provider; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, provider;
- **Fixed Line** – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, BCC, PLDT Global and certain subsidiaries, and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and
- **Others** – PCEV, PGIH, PLDT Digital and its subsidiaries, MIC and PGIC, our investment companies.

See Note 2 – Summary of Significant Accounting Policies and Note 14 – Business Combination for further discussion.

The Management Committee monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income for the year; earnings before interest, taxes, and depreciation and amortization, or Adjusted EBITDA; Adjusted EBITDA margin; and core income. Net income for the year is measured consistent with net income in our consolidated financial statements.

Adjusted EBITDA for the year is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs – net, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net.

Adjusted EBITDA margin for the year is measured as Adjusted EBITDA divided by service revenues.

Core income for the year is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the year is measured as core income divided by the weighted average number of outstanding common shares. See Note 8 – Earnings Per Common Share for the weighted average number of common shares.

Adjusted EBITDA, Adjusted EBITDA margin, core income and core EPS are non-IFRS measures.

The amounts of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in our consolidated financial statements, which is in accordance with IFRS.

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The segment revenues, net income, and other segment information of our reportable operating segments as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Wireless (in million pesos)	Fixed Line	Others	Inter-segment Transactions	Consolidated
December 31, 2017					
Revenues					
External customers	92,534	67,389	3	—	159,926
Service revenues	87,351	63,811	3	—	151,165
Non-service revenues	5,183	3,578	—	—	8,761
Inter-segment transactions	1,301	10,952	13	(12,266)	—
Service revenues	1,301	10,946	13	(12,260)	—
Non-service revenues	—	6	—	(6)	—
Total revenues	93,835	78,341	16	(12,266)	159,926
Results					
Depreciation and amortization	36,914	15,001	—	—	51,915
Asset impairment	6,155	2,098	5	—	8,258
Impairment of investments	439	1,583	540	—	2,562
Equity share in net earnings (losses)					
of associates and joint ventures	(129)	44	2,991	—	2,906
Interest income	307	695	653	(243)	1,412
Financing costs – net	2,260	5,106	201	(197)	7,370
Provision for (benefit from) income tax	(2,784)	3,680	207	—	1,103
Net income (loss) / Segment profit (loss)	(3,510)	7,474	10,120	(618)	13,466
Adjusted EBITDA	35,151	29,478	(63)	1,608	66,174
Adjusted EBITDA margin	40 %	39 %	—	—	44 %
Core income	8,514	8,846	10,926	(618)	27,668
Assets and liabilities					
Operating assets	211,983	174,217	34,504	(37,856)	382,848
Investments in associates and joint ventures	—	44,867	1,263	—	46,130
Deferred income tax assets – net	18,826	11,994	—	(354)	30,466
Total assets	230,809	231,078	35,767	(38,210)	459,444
Operating liabilities	153,622	196,451	13,624	(18,802)	344,895
Deferred income tax liabilities – net	2,656	286	424	—	3,366
Total liabilities	156,278	196,737	14,048	(18,802)	348,261
Other segment information					
Capital expenditures, including capitalized					
interest	27,305	12,994	—	—	40,299
December 31, 2016					
Revenues					
External customers	103,447	61,806	9	—	165,262
Service revenues	99,115	58,086	9	—	157,210
Non-service revenues	4,332	3,720	—	—	8,052
Inter-segment transactions	1,467	10,922	11	(12,400)	—

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Service revenues	1,467	10,920	11	(12,398)	—
Non-service revenues	—	2	—	(2)	—
Total revenues	104,914	72,728	20	(12,400)	165,262
Results					
Depreciation and amortization	18,984	15,471	—	—	34,455
Asset impairment	9,284	1,758	—	—	11,042
Impairment of investments	134	—	5,381	—	5,515
Equity share in net earnings (losses) of					
associates and joint ventures	(237)	(40)	1,458	—	1,181
Interest income	270	707	306	(237)	1,046
Financing costs – net	2,487	4,917	187	(237)	7,354
Provision for income tax	(1,270)	3,018	161	—	1,909
Net income / Segment profit	9,463	8,134	2,565	—	20,162

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Adjusted EBITDA	32,661	26,950	(22)	1,572	61,161
Adjusted EBITDA margin	32 %	39 %	—	—	39 %
Core income	11,402	7,746	8,709	—	27,857
Assets and liabilities					
Operating assets	217,964	183,533	22,804	(33,388)	390,913
Investments in associates and joint ventures	1,945	40,874	14,039	—	56,858
Deferred income tax assets – net	13,985	13,363	—	—	27,348
Total assets	233,894	237,770	36,843	(33,388)	475,119
Operating liabilities	161,480	203,777	12,637	(14,879)	363,015
Deferred income tax liabilities – net	2,923	384	260	—	3,567
Total liabilities	164,403	204,161	12,897	(14,879)	366,582
Other segment information					
Capital expenditures, including capitalized					
interest	32,097	10,728	—	—	42,825
December 31, 2015					
Revenues					
External customers	113,985	57,118	—	—	171,103
Service revenues	109,188	53,742	—	—	162,930
Non-service revenues	4,797	3,376	—	—	8,173
Inter-segment transactions	1,528	11,747	—	(13,275)	—
Service revenues	1,528	11,733	—	(13,261)	—
Non-service revenues	—	14	—	(14)	—
Total revenues	115,513	68,865	—	(13,275)	171,103
Results					
Depreciation and amortization	17,218	14,301	—	—	31,519
Asset impairment	8,446	1,244	—	—	9,690
Impairment of investments	—	42	5,124	—	5,166
Equity share in net earnings (losses) of					
associates and joint ventures	(81)	38	3,284	—	3,241
Interest income	308	620	99	(228)	799
Financing costs – net	1,799	4,509	179	(228)	6,259
Provision for income tax	2,763	1,656	144	—	4,563
Net income / Segment profit	15,434	6,193	448	—	22,075
Adjusted EBITDA	44,237	24,749	(59)	1,291	70,218
Adjusted EBITDA margin	40 %	38 %	—	—	43 %
Core income	22,512	6,539	6,161	—	35,212
Assets and liabilities					
Operating assets	217,317	190,856	18,504	(42,226)	384,451
Investments in associates and joint ventures	2,208	12,922	33,573	—	48,703
Deferred income tax assets – net	8,249	13,692	—	—	21,941
Total assets	227,774	217,470	52,077	(42,226)	455,095
Operating liabilities	171,131	182,085	12,149	(27,872)	337,493
Deferred income tax liabilities – net	3,146	412	146	—	3,704
Total liabilities	174,277	182,497	12,295	(27,872)	341,197
Other segment information					