

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 standards<sup>1</sup> 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

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

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## CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

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

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

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

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

In this annual report, each reference to:

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

✦NTT means Nippon Telegraph and Telephone Corporation;

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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

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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 <sup>(1)</sup>	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)					
<b>Statements of Operations Data:</b>						
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

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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 <sup>(2)</sup>	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 <sup>(3)</sup>	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

<sup>(1)</sup>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.

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

<sup>(3)</sup>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)	
<b>Non-Voting Preferred Stock</b>				
10% Cumulative Convertible Preferred Stock II and JJ*	—	—	—	—
<b>Series IV Cumulative Non-convertible Redeemable</b>				
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
<b>Total</b>	<b>666</b>	<b>666</b>	<b>1,603</b>	<b>1,603</b>

\*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:

Earnings	Date			Amount	
	Approved	Record	Payable	Per share (in Pesos)	Total Declared (in Pesos) millions)
2015	August 4, 2015	August 27, 2015	September 25, 2015 <sup>(1)</sup>	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

<sup>(1)</sup>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 <sup>(1)</sup>	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

<sup>(1)</sup>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,			
	End	Average <sup>(1)</sup>	High <sup>(2)</sup>	Low <sup>(3)</sup>
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

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

<sup>(2)</sup> Highest exchange rate for the period.

<sup>(3)</sup> Lowest exchange rate for the period.

	Month			
	End	Average <sup>(1)</sup>	High <sup>(2)</sup>	Low <sup>(3)</sup>
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;

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- 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 13<sup>th</sup> 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](http://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.

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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 Digtel. 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<sup>TM</sup> 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, Saudi 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
SBI	GSM 1800	1,800	17.5 MHz x 2
	TD-LTE	2,500	20 MHz
PDSI	TD-LTE	3,400	30 MHz
	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