

SEC Number  
File Number

PW-55

---

**PLDT Inc.**

---

(Company's Full Name)

**Ramon Cojuangco Building  
Makati Avenue, Makati City**

---

(Company's Address)

**(632) 816-8556**

---

(Telephone Number)

**Not Applicable**

---

(Fiscal Year Ending)  
(month & day)

**SEC Form 17-Q**

---

Form Type

**Not Applicable**

---

Amendment Designation (if applicable)

**September 30, 2018**

---

Period Ended Date

**Not Applicable**

---

(Secondary License Type and File Number)



November 8, 2018

Securities & Exchange Commission  
Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City

Attention: Mr. Vicente Graciano P. Felizmenio, Jr.  
Director – Markets and Securities Regulation Dept.

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1.1.1.2, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2018.

Very truly yours,

  
**MA. LOURDES C. RAUSA-CHAN**  
Corporate Secretary



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17

OF THE SECURITIES REGULATION CODE ("SRC") AND  
SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended **September 30, 2018**
2. SEC Identification Number **PW-55**
3. BIR Tax Identification No. **000-488-793**
4. **PLDT Inc.**  
Exact name of registrant as specified in its charter
5. **Republic of the Philippines**  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **Ramon Cojuangco Building, Makati Avenue, Makati** **0721**  
**City** Postal Code  
Address of registrant's principal office
8. **(632) 816-8556**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC  
Title of Each Class Number of Shares of Common Stock Outstanding  
**Common Capital Stock, Php5 par value** **216,055,775 shares as at September 30, 2018**
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes [  ] No [  ]
12. Check whether the registrant
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports):  
Yes [  ] No [  ]
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes [  ] No [  ]

## TABLE OF CONTENTS

PART I –	<u>FINANCIAL INFORMATION</u> .....	1
Item 1.	<u>Consolidated Financial Statements</u> .....	1
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations ..</u>	1
	<u>Financial Highlights and Key Performance Indicators</u> .....	2
	<u>Performance Indicators</u> .....	3
	<u>Overview</u> .....	4
	<u>Management’s Financial Review</u> .....	4
	<u>Results of Operations</u> .....	5
	<u>Wireless</u> .....	9
	<u>Revenues</u> .....	9
	<u>Service Revenues</u> .....	10
	<u>Non-Service Revenues</u> .....	13
	<u>Expenses</u> .....	13
	<u>Other Income (Expenses)</u> .....	14
	<u>Provision for Income Tax</u> .....	15
	<u>Net Income</u> .....	15
	<u>EBITDA</u> .....	15
	<u>Core Income</u> .....	15
	<u>Fixed Line</u> .....	15
	<u>Revenues</u> .....	15
	<u>Service Revenues</u> .....	15
	<u>Non-Service Revenues</u> .....	16
	<u>Expenses</u> .....	16
	<u>Other Income (Expenses)</u> .....	17
	<u>Provision for Income Tax</u> .....	17
	<u>Net Income</u> .....	18
	<u>EBITDA</u> .....	18
	<u>Core Income</u> .....	18
	<u>Others</u> .....	18
	<u>Revenues</u> .....	18
	<u>Expenses</u> .....	18
	<u>Other Income (Expenses)</u> .....	18
	<u>Net Income</u> .....	19
	<u>Core Income</u> .....	19
	<u>Liquidity and Capital Resources</u> .....	19
	<u>Operating Activities</u> .....	20
	<u>Investing Activities</u> .....	20
	<u>Financing Activities</u> .....	21
	<u>Changes in Financial Conditions</u> .....	22
	<u>Off-Balance Sheet Arrangements</u> .....	22
	<u>Equity Financing</u> .....	23
	<u>Contractual Obligations and Commercial Commitments</u> .....	23
	<u>Quantitative and Qualitative Disclosures about Market Risks</u> .....	23
	<u>Impact of Inflation and Changing Prices</u> .....	24
PART II –	<u>OTHER INFORMATION</u> .....	25
	<u>Related Party Transactions</u> .....	27
ANNEX –	<u>Aging of Accounts Receivable</u> .....	A-1
	<u>Financial Soundness Indicators</u> .....	A-2
	<u>SIGNATURES</u> .....	S-1



## PART I – FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements

*Our consolidated financial statements as at September 30, 2018 (unaudited) and December 31, 2017 (audited) and for the nine months ended September 30, 2018 and 2017 (unaudited) and related notes (pages F-1 to F-151) are filed as part of this report on Form 17-Q.*

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to “we,” “us,” “our” or “PLDT Group” mean PLDT Inc. and its consolidated subsidiaries, and references to “PLDT” mean PLDT Inc., not including its consolidated subsidiaries (please see Note 2 – Summary of Significant Accounting Policies to the accompanying unaudited consolidated financial statements for the list of these subsidiaries, including a description of their respective principal business activities and PLDT’s direct and/or indirect equity interest).*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which is virtually converged with International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differs in certain significant respects from generally accepted accounting principles, or GAAP, in the U.S.*

*The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php54.10 to US\$1.00, the exchange rate as at September 30, 2018 quoted through the Bankers Association of the Philippines.*

*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 generally are identified by forward-looking words such as “believe,” “plan,” “anticipate,” “continue,” “estimate,” “expect,” “may,” “will” or other similar words.*

*A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors. 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.*



## Financial Highlights and Key Performance Indicators

	Nine months ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
<b>(amounts in million Php, except for EBITDA margin, earnings per common share)</b>				
<b>Consolidated Income Statement</b>				
Revenues	123,151	119,066	4,085	3
Expenses	101,593	96,495	5,098	5
Other income (expenses)	(309)	5,307	(5,616)	(106)
Income before income tax	21,249	27,878	(6,629)	(24)
Net income	16,326	21,942	(5,616)	(26)
Core income	18,895	23,189	(4,294)	(19)
EBITDA	49,699	49,129	570	1
EBITDA margin <sup>(1)</sup>	43%	43%	—	—
Reported earnings per common share:				
Basic	75.09	101.06	(25.97)	(26)
Diluted	75.09	101.06	(25.97)	(26)
Core earnings per common share <sup>(2)</sup> :				
Basic	87.25	107.12	(19.87)	(19)
Diluted	87.25	107.12	(19.87)	(19)

	September 30, December 31,		Increase (Decrease)	
	2018	2017	Amount	%
<b>(amounts in million Php, except for net debt to equity ratio)</b>				
<b>Consolidated Statements of Financial Position</b>				
Total assets	470,841	459,444	11,397	2
Property and equipment	194,748	186,907	7,841	4
Cash and cash equivalents and short-term investments	50,052	33,979	16,073	47
Total equity attributable to equity holders of PLDT	109,478	106,842	2,636	2
Long-term debt, including current portion	179,223	172,611	6,612	4
Net debt <sup>(3)</sup> to equity ratio	1.18x	1.30x	—	—

	Nine months ended September 30,		Change	
	2018	2017	Amount	%
<b>(amounts in million Php, except for operational data)</b>				
<b>Consolidated Statements of Cash Flows</b>				
Net cash provided by operating activities	42,622	27,355	15,267	56
Net cash used in investing activities	(17,988)	(4,843)	(13,145)	(271)
<i>Payment for purchase of property and equipment, including capitalized interest</i>	40,484	10,993	29,491	268
Net cash used in financing activities	(14,038)	(36,247)	22,209	61
<b>Operational Data</b>				
Number of mobile subscribers	58,034,007	58,218,034	(184,027)	—
<i>Prepaid<sup>(4)</sup></i>	55,627,968	55,651,398	(23,430)	—
<i>Postpaid</i>	2,406,039	2,566,636	(160,597)	(6)
Number of broadband subscribers	2,054,225	1,903,412	150,813	8
<i>Fixed Line broadband</i>	1,859,210	1,651,515	207,695	13
<i>Fixed Wireless broadband</i>	195,015	251,897	(56,882)	(23)
Number of fixed line subscribers	2,778,274	2,614,248	164,026	6
Number of employees:	16,978	17,567	(589)	(3)
Fixed Line	10,264	10,629	(365)	(3)
<i>LEC</i>	8,091	6,803	1,288	19
<i>Others</i>	2,173	3,826	(1,653)	(43)
Wireless	6,014	6,938	(924)	(13)
Others <sup>(5)</sup>	700	—	700	—

(1) EBITDA margin for the period is measured as EBITDA divided by service revenues.

(2) Core earnings per common share, or EPS, for the period is measured as core income divided by the weighted average number of outstanding common shares for the period.

(3) Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion).

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

(5) Includes Voyager headcount resulting from the transfer of Voyager Innovations Holdings Pte. Ltd., or VIH, from Smart to PLDT Communications and Energy Ventures, Inc., or PCEV, in April 2018.

Exchange Rates – per US\$	Month end rates	Weighted average rates during the year
September 30, 2018	54.10	52.50
December 31, 2017	49.96	50.41
September 30, 2017	50.83	50.24
December 31, 2016	49.77	47.48

## 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.

### *EBITDA*

EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs – net, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income – net. EBITDA is monitored by management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT’s performance with that of other companies in the technology, media and telecommunications sector. We also present 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 EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, 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 PFRS. Unlike net income, EBITDA does not include depreciation and amortization, and financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. 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 EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

### *Core Income*

Core income for the period is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. The core income results are monitored by management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by management as a basis of determining the level of dividend payouts to shareholders and basis of 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 PFRS 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 other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited.





## Overview

We are the largest and most diversified telecommunications company in the Philippines which delivers data and multimedia services nationwide. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as the bases for management's decision to allocate resources and evaluate operating performance:

- *Wireless* — mobile telecommunications services provided by Smart Communications, Inc., or Smart, and Digitel Mobile Philippines, Inc., or DMPI, our mobile service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global Corporation, or PLDT Global, our mobile virtual network operations, or MVNO, provider;
- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., Bonifacio Communications Corporation, PLDT Global and certain subsidiaries and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and
- *Others* — Voyager Innovations, Inc., or Voyager, and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; PCEV, PLDT Global Investment Holdings, Inc., Mabuhay Investments Corporation, PLDT Global Investments Corporation, or PGIC, PLDT Digital Investments Pte. Ltd., or PLDT Digital, and its subsidiaries, our investment companies.

As at September 30, 2018, our chief operating decision maker, or our Management Committee, views our business activities in three business units: Wireless, Fixed Line and Others.

## Management's Financial Review

In addition to consolidated net income, we use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated net income to our consolidated EBITDA and our consolidated core income for the nine months ended September 30, 2018 and 2017 are set forth below.

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the nine months ended September 30, 2018 and 2017:

	2018	2017
	(amounts in million Php)	
Consolidated net income	16,326	21,942
Add (deduct) adjustments:		
Depreciation and amortization	27,500	25,547
Financing costs – net	5,292	5,628
Provision for income tax	4,923	5,936
Foreign exchange losses – net	891	787
Amortization of intangible assets	641	622
Impairment of investments	60	778
Noncurrent asset impairment	—	389
Equity share in net earnings of associates and joint ventures	(199)	(2,734)
Gains on derivative financial instruments – net	(1,053)	(650)
Interest income	(1,396)	(1,023)
Other income – net	(3,286)	(8,093)
Total adjustments	33,373	27,187
Consolidated EBITDA	49,699	49,129



The following table shows the reconciliation of our consolidated net income to our consolidated core income for the nine months ended September 30, 2018 and 2017:

	2018	2017
	(amounts in million Php)	
Consolidated net income	16,326	21,942
Add (deduct) adjustments:		
Depreciation due to shortened life of property and equipment	4,511	—
Foreign exchange losses – net	891	787
Investment written-off	362	—
Impairment of investments	60	778
Core income adjustment on equity share in net losses of associates and joint ventures	45	66
Noncurrent asset impairment	—	389
Net income attributable to noncontrolling interests	(57)	(64)
Unrealized gain in fair value of Rocket Internet investment	(1,089)	—
Gains on derivative financial instruments – net, excluding hedge costs	(1,091)	(818)
Net tax effect of aforementioned adjustments	(1,063)	109
Total adjustments	2,569	1,247
Consolidated core income	18,895	23,189

### Results of Operations

The following table shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, provision for income tax, net income (loss)/segment profit (loss), EBITDA, EBITDA margin and core income for the nine months ended September 30, 2018 and 2017. In each of the nine months ended September 30, 2018 and 2017, majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.



In 2017, we changed the presentation of our expenses by combining certain line items to simplify our reporting while maintaining the same level of information.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(amounts in million Php, except for EBITDA margin)					
<b>For the nine months ended September 30, 2018</b>					
Revenues	67,675	63,336	610	(8,470)	123,151
Expenses	58,558	50,720	1,957	(9,642)	101,593
Other income (expenses)	(586)	(960)	2,791	(1,554)	(309)
Income (loss) before income tax	8,531	11,656	1,444	(382)	21,249
Provision for income tax	2,221	2,483	219	—	4,923
Net income (loss)/Segment profit (loss)	6,310	9,173	1,225	(382)	16,326
EBITDA	25,433	24,320	(1,226)	1,172	49,699
EBITDA margin <sup>(1)</sup>	41%	40%	-210%	—	43%
Core income	9,514	8,982	781	(382)	18,895
<b>For the nine months ended September 30, 2017</b>					
Revenues	70,271	58,075	8	(9,288)	119,066
Expenses	61,372	45,550	43	(10,470)	96,495
Other income (expenses)	(1,250)	(1,180)	9,158	(1,421)	5,307
Income (loss) before income tax	7,649	11,345	9,123	(239)	27,878
Provision for income tax	2,751	3,099	86	—	5,936
Net income (loss)/Segment profit (loss)	4,898	8,246	9,037	(239)	21,942
EBITDA	25,623	22,359	(35)	1,182	49,129
EBITDA margin <sup>(1)</sup>	38%	40%	-438%	—	43%
Core income	5,757	7,810	9,861	(239)	23,189
<b>Increase (Decrease)</b>					
Revenues	(2,596)	5,261	602	818	4,085
Expenses	(2,814)	5,170	1,914	828	5,098
Other income (expenses)	664	220	(6,367)	(133)	(5,616)
Income (loss) before income tax	882	311	(7,679)	(143)	(6,629)
Provision for income tax	(530)	(616)	133	—	(1,013)
Net income (loss)/Segment profit (loss)	1,412	927	(7,812)	(143)	(5,616)
EBITDA	(190)	1,961	(1,191)	(10)	570
Core income	3,757	1,172	(9,080)	(143)	(4,294)

<sup>(1)</sup> EBITDA margin for the period is measured as EBITDA divided by service revenues.

In the first quarter of 2018, we adopted PFRS 15 using the modified retrospective approach. i.e. contracts that are not completed by January 1, 2018 are accounted as if they were recognized in accordance with the new standard from the very beginning. The cumulative effect arising from the transition was recognized as an adjustment to the opening balance of the equity.

The following is the impact of PFRS 15 adoption in our profit and loss for the nine months ended September 30, 2018:

	PAS 18	PFRS 15 Impact		PFRS 15
		Wireless	Fixed Line	
(amounts in million Php)				
Service revenues	117,741	(2,547)	(318)	114,876
Non-service revenues	5,995	2,115	165	8,275
Other income – interest income	1,088	200	108	1,396
Income before tax	21,564	(269)	(46)	21,249
Provision for income tax	5,018	(81)	(14)	4,923
Net income	16,546	(188)	(32)	16,326
EBITDA	50,321	(469)	(153)	49,699
EBITDA margin	43%	—	—	43%
Core income	19,115	(188)	(32)	18,895



## On a Consolidated Basis

### Revenues

We reported consolidated revenues of Php123,151 million for the nine months ended September 30, 2018, an increase of Php4,085 million, or 3%, as compared with Php119,066 million in the same period in 2017, primarily due to higher revenues from data services in our fixed line business, as well as higher non-service revenues from our wireless and fixed line businesses, partially offset by lower revenues from mobile and home broadband services from our wireless business, and lower voice revenues from our fixed line business.

In compliance with Memorandum Circular No. 05-07-2018 issued by the National Telecommunications Commission, or NTC, the interconnection rates for our voice calls were reduced to Php0.50 per minute from Php2.50 per minute, and rates for SMS were down to Php0.05 per message from Php0.15 per message effective September 1, 2018.

The following table shows the breakdown of our consolidated revenues by services for the nine months ended September 30, 2018 and 2017:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(amounts in million Php)				
<b>For the nine months ended September 30, 2018</b>					
Service Revenues					
<i>Wireless</i>	62,269			(2,116)	60,153
Mobile	60,518			(923)	59,595
Home broadband	124			—	124
Digital platforms and mobile financial services	301			(4)	297
MVNO and others	1,326			(1,189)	137
<i>Fixed Line</i>		60,491		(6,349)	54,142
Voice		18,818		(1,680)	17,138
Data		40,440		(4,160)	36,280
Home broadband		19,934		(197)	19,737
Corporate data and ICT		20,506		(3,963)	16,543
Miscellaneous		1,233		(509)	724
<i>Others</i>			585	(4)	581
Total Service Revenues	62,269	60,491	585	(8,469)	114,876
Non-Service Revenues					
Sale of computers, phone units and mobile handsets	5,406	2,434	25	(7)	7,858
Point-product sales	—	411	—	6	417
Total Non-Service Revenues	5,406	2,845	25	(1)	8,275
Total Revenues	67,675	63,336	610	(8,470)	123,151
<b>For the nine months ended September 30, 2017</b>					
Service Revenues					
<i>Wireless</i>	66,837			(966)	65,871
Mobile	63,595			(947)	62,648
Home broadband	1,930			(7)	1,923
Digital platforms and mobile financial services	968			(10)	958
MVNO and others	344			(2)	342
<i>Fixed Line</i>		55,466		(8,311)	47,155
Voice		21,468		(2,622)	18,846
Data		32,570		(5,019)	27,551
Home broadband		13,158		(181)	12,977
Corporate data and ICT		19,412		(4,838)	14,574
Miscellaneous		1,428		(670)	758
<i>Others</i>			8	(5)	3
Total Service Revenues	66,837	55,466	8	(9,282)	113,029
Non-Service Revenues					
Sale of computers, phone units and mobile handsets	3,434	1,985	—	(11)	5,408
Point-product sales	—	624	—	5	629
Total Non-Service Revenues	3,434	2,609	—	(6)	6,037
Total Revenues	70,271	58,075	8	(9,288)	119,066



The following table shows the breakdown of our consolidated revenues by business segment for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Change	
					Amount	%
	(amounts in million Php)					
Wireless	67,675	55	70,271	59	(2,596)	(4)
Fixed line	63,336	51	58,075	49	5,261	9
Others <sup>(1)</sup>	610	1	8	—	602	7,525
Inter-segment transactions	(8,470)	(7)	(9,288)	(8)	818	9
Consolidated	123,151	100	119,066	100	4,085	3

<sup>(1)</sup> Other business segment includes revenues from digital platforms and mobile financial services, resulting from the transfer of VIH from Smart to PCEV in April 2018.

### Expenses

Consolidated expenses increased by Php5,098 million, or 5%, to Php101,593 million for the nine months ended September 30, 2018 from Php96,495 million in the same period in 2017, primarily due to higher depreciation and amortization, selling, general and administrative expenses, and provisions in our fixed line business, and higher cost of sales and services in our wireless business.

The following table shows the breakdown of our consolidated expenses by business segment for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Change	
					Amount	%
	(amounts in million Php)					
Wireless	58,558	58	61,372	64	(2,814)	(5)
Fixed line	50,720	50	45,550	47	5,170	11
Others	1,957	2	43	—	1,914	4,451
Inter-segment transactions	(9,642)	(10)	(10,470)	(11)	828	8
Consolidated	101,593	100	96,495	100	5,098	5

### Other Income (Expenses)

Consolidated other expenses amounted to Php309 million for the nine months ended September 30, 2018, a change of Php5,616 million, or 106%, as against other income of Php5,307 million in the same period in 2017, primarily due to gain on sale of Beacon Electric Holdings, Inc., or Beacon, shares in 2017 and lower equity share in net earnings of associates and joint ventures, partially offset by gain in fair value of Rocket Internet investment in 2018.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the nine months ended September 30, 2018 and 2017:

	2018	2017	Change	
			Amount	%
	(amounts in million Php)			
Wireless	(586)	(1,250)	664	53
Fixed line	(960)	(1,180)	220	19
Others	2,791	9,158	(6,367)	(70)
Inter-segment transactions	(1,554)	(1,421)	(133)	(9)
Consolidated	(309)	5,307	(5,616)	(106)

### Net Income (Loss)

Consolidated net income decreased by Php5,616 million, or 26%, to Php16,326 million for the nine months ended September 30, 2018, from Php21,942 million in the same period in 2017, primarily due to lower net income from our other business, partly offset by higher net income from our wireless and fixed line businesses. Our consolidated basic and diluted EPS decreased to Php75.09 for the nine months ended September 30, 2018 from Php101.06 in the same period in 2017. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the first nine months of 2018 and 2017.



The following table shows the breakdown of our consolidated net income by business segment for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Change	
					Amount	%
	(amounts in million Php)					
Wireless	6,310	39	4,898	22	1,412	29
Fixed line	9,173	56	8,246	38	927	11
Others	1,225	7	9,037	41	(7,812)	(86)
Inter-segment transactions	(382)	(2)	(239)	(1)	(143)	(60)
Consolidated	16,326	100	21,942	100	(5,616)	(26)

### EBITDA

Our consolidated EBITDA amounted to Php49,699 million for the nine months ended September 30, 2018, an increase of Php570 million, or 1%, as compared with Php49,129 million in the same period in 2017, primarily due to improved EBITDA in our fixed line business, partially offset by lower EBITDA in our wireless and other businesses.

The following table shows the breakdown of our consolidated EBITDA by business segment for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Change	
					Amount	%
	(amounts in million Php)					
Wireless	25,433	51	25,623	52	(190)	(1)
Fixed line	24,320	49	22,359	46	1,961	9
Others	(1,226)	(2)	(35)	—	(1,191)	(3,403)
Inter-segment transactions	1,172	2	1,182	2	(10)	(1)
Consolidated	49,699	100	49,129	100	570	1

### Core Income

Our consolidated core income amounted to Php18,895 million for the nine months ended September 30, 2018, a decrease of Php4,294 million, or 19%, as compared with Php23,189 million in the same period in 2017, primarily due to lower core income from our other business, partly offset by higher core income from our wireless and fixed line segments. Our consolidated basic and diluted core EPS decreased to Php87.25 for the nine months ended September 30, 2018 from Php107.12 in the same period in 2017.

The following table shows the breakdown of our consolidated core income by business segment for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Change	
					Amount	%
	(amounts in million Php)					
Wireless	9,514	50	5,757	25	3,757	65
Fixed line	8,982	48	7,810	34	1,172	15
Others	781	4	9,861	42	(9,080)	(92)
Inter-segment transactions	(382)	(2)	(239)	(1)	(143)	(60)
Consolidated	18,895	100	23,189	100	(4,294)	(19)

### On a Business Segment Basis

#### Wireless

##### Revenues

We generated revenues of Php67,675 million from our wireless business for the nine months ended September 30, 2018, a decrease of Php2,596 million, or 4%, from Php70,271 million in the same period in 2017.



The following table summarizes our total revenues by service from our wireless business for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
(amounts in million Php)						
<b>Service Revenues:</b>						
Mobile	60,518	89	63,595	91	(3,077)	(5)
Home broadband	124	—	1,930	3	(1,806)	(94)
Digital platforms and mobile financial services <sup>(1)</sup>	301	1	968	1	(667)	(69)
MVNO and others <sup>(2)</sup>	1,326	2	344	—	982	285
<b>Total Wireless Service Revenues</b>	<b>62,269</b>	<b>92</b>	<b>66,837</b>	<b>95</b>	<b>(4,568)</b>	<b>(7)</b>
<b>Non-Service Revenues:</b>						
Sale of mobile handsets and broadband data modems	5,406	8	3,434	5	1,972	57
<b>Total Wireless Revenues</b>	<b>67,675</b>	<b>100</b>	<b>70,271</b>	<b>100</b>	<b>(2,596)</b>	<b>(4)</b>

<sup>(1)</sup> Starting April 2018, revenues from digital platforms and mobile financial services are reported under other segment resulting from the transfer of VIH from Smart to PCEV.

<sup>(2)</sup> Includes service revenues generated by MVNOs of PLDT Global subsidiaries and facilities service fees.

### Service Revenues

Our wireless service revenues for the nine months ended September 30, 2018 decreased by Php4,568 million, or 7%, to Php62,269 million as compared with Php66,837 million in the same period in 2017, mainly as a result of lower revenues from mobile, home broadband, and digital platforms and mobile financial services, partially offset by higher revenues from MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 92% and 95% for the nine months ended September 30, 2018 and 2017, respectively.

#### Mobile Services

Our mobile service revenues amounted to Php60,518 million for the nine months ended September 30, 2018, a decrease of Php3,077 million, or 5%, from Php63,595 million in the same period in 2017. Mobile service revenues accounted for 97% and 95% of our wireless service revenues for the nine months ended September 30, 2018 and 2017, respectively. In the third quarter of 2018, the revenue split allocation among voice, SMS and data for our mobile bundled plans was revised to reflect the result of a recent network study from our wireless business.

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
(amounts in million Php)						
<b>Mobile Services:</b>						
Voice	21,548	36	23,248	36	(1,700)	(7)
SMS	10,490	17	19,702	31	(9,212)	(47)
Data	27,278	45	19,565	31	7,713	39
Inbound roaming and others <sup>(1)</sup>	1,202	2	1,080	2	122	11
<b>Total</b>	<b>60,518</b>	<b>100</b>	<b>63,595</b>	<b>100</b>	<b>(3,077)</b>	<b>(5)</b>

<sup>(1)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees.

#### Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php1,700 million, or 7%, to Php21,548 million for the nine months ended September 30, 2018 from Php23,248 million in the same period in 2017, mainly on account of lower international and domestic voice revenues due to subscribers' shift to digital lifestyle with access to alternative calling options and other over-the-top, or OTT, services, and the impact of adoption of PFRS 15, partly offset by the effect of the revised revenue split allocation. Mobile voice services accounted for 36% of our mobile service revenues in each of the nine months ended September 30, 2018 and 2017.

Domestic voice service revenues decreased by Php140 million, or 1%, to Php17,954 million for the nine months ended September 30, 2018 from Php18,094 million in the same period in 2017, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php1,560 million, or 30%, to Php3,594 million for the nine months ended September 30, 2018 from Php5,154 million in the same period in 2017, primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

### *SMS Services*

Mobile revenues from our SMS services, which include all SMS-related services, decreased by Php9,212 million, or 47%, to Php10,490 million for the nine months ended September 30, 2018 from Php19,702 million in the same period in 2017 mainly due to declining SMS volumes as a result of alternative text messaging options, such as OTT services and social media, and the impact of the revised revenue split allocation and adoption of PFRS 15. Mobile SMS services accounted for 17% and 31% of our mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively.

### *Data Services*

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php7,713 million, or 39%, to Php27,278 million for the nine months ended September 30, 2018 from Php19,565 million in the same period in 2017 as a result of continuous network improvement, LTE migration, enhanced data offers and increased mobile internet usage, as well as the impact of the revised revenue split allocation, partially offset by lower revenues from mobile broadband and the impact of adoption of PFRS 15. Data services accounted for 45% and 31% of our mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively.

The following table shows the breakdown of our mobile data service revenues for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
(amounts in million Php)						
Data Services:						
Mobile internet <sup>(1)</sup>	23,434	86	14,762	75	8,672	59
Mobile broadband	3,569	13	4,678	24	(1,109)	(24)
Other data <sup>(2)</sup>	275	1	125	1	150	120
<b>Total</b>	<b>27,278</b>	<b>100</b>	<b>19,565</b>	<b>100</b>	<b>7,713</b>	<b>39</b>

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

<sup>(2)</sup> Beginning third quarter of 2018, revenues from other data include value-added services, or VAS.

### *Mobile Internet*

Mobile internet service revenues increased by Php8,672 million, or 59%, to Php23,434 million for the nine months ended September 30, 2018 from Php14,762 million in the same period in 2017 as a result of the increase in smartphone ownership, greater data adoption among our subscriber base with the growth in LTE subscribers, and increased usage of our existing data users, leading to the significant growth of mobile internet browsing and prevalent use of mobile apps, social networking and e-commerce sites, and other OTT services, combined with the impact of the revised revenue split allocation. Mobile internet services accounted for 39% and 23% of our mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively.

### *Mobile Broadband*

Mobile broadband revenues amounted to Php3,569 million for the nine months ended September 30, 2018, a decrease of Php1,109 million, or 24%, from Php4,678 million in the same period in 2017, primarily due to a decrease in the number of subscribers using pocket wifi as they move to using smartphones and fixed DSL/Fiber home broadband. Mobile broadband services accounted for 6% and 7% of our mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively.

### *Other Data*

Revenues from our other data services, which include VAS, domestic leased lines and share in revenue from PLDT WeRoam, increased by Php150 million, or 120%, to Php275 million for the nine months ended September 30, 2018 from Php125 million in the same period in 2017.

### *Inbound Roaming and Others*

Mobile revenues from inbound roaming and other services increased by Php122 million, or 11%, to Php1,202 million for the nine months ended September 30, 2018 from Php1,080 million in the same period in 2017.





The following table shows the breakdown of our mobile service revenues by service type for the nine months ended September 30, 2018 and 2017:

	2018	2017	Increase (Decrease)	
			Amount	%
Mobile service revenues	60,518	63,595	(3,077)	(5)
<i>By service type</i>				
Prepaid	44,712	45,007	(295)	(1)
Postpaid	14,604	17,508	(2,904)	(17)
Inbound roaming and others	1,202	1,080	122	11

#### *Prepaid Revenues*

Revenues generated from our mobile prepaid services amounted to Php44,712 million for the nine months ended September 30, 2018, a decrease of Php295 million, or 1%, as compared with Php45,007 million in the same period in 2017. Mobile prepaid service revenues accounted for 74% and 71% of mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by a lower mobile prepaid subscriber base resulting in lower voice and SMS revenues, partially offset by the sustained growth in mobile internet revenues.

#### *Postpaid Revenues*

Revenues generated from mobile postpaid service amounted to Php14,604 million for the nine months ended September 30, 2018, a decrease of Php2,904 million, or 17%, as compared with Php17,508 million in the same period in 2017, and accounted for 24% and 27% of mobile service revenues for the nine months ended September 30, 2018 and 2017, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base and the impact of adoption of PFRS 15.

#### *Subscriber Base, ARPU and Churn Rates*

The following table shows our wireless subscriber base as at September 30, 2018 and 2017:

	2018	2017	Increase (Decrease)	
			Amount	%
Mobile subscriber base				
Smart <sup>(1)</sup>	20,956,739	21,909,729	(952,990)	(4)
Prepaid	19,526,064	20,537,068	(1,011,004)	(5)
Postpaid	1,430,675	1,372,661	58,014	4
TNT	30,129,026	28,364,436	1,764,590	6
Sun <sup>(1)</sup>	6,948,242	7,943,869	(995,627)	(13)
Prepaid	5,972,878	6,749,894	(777,016)	(12)
Postpaid	975,364	1,193,975	(218,611)	(18)
Total mobile subscribers	58,034,007	58,218,034	(184,027)	—

<sup>(1)</sup> Includes mobile broadband subscribers.

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.

In compliance with Memorandum Circular (MC) No. 05-12-2017 issued jointly by the NTC, Department of Information and Communications Technology, and Department of Trade and Industry, Smart, TNT, and Sun extended the validity of prepaid loads to one year. Beginning January 2018, the one-year validity was implemented particularly on prepaid loads worth Php300 and above. In July 2018, the one-year validity was fully implemented for all prepaid loads, including denominations lower than Php300, regardless of the validity period printed on the physical cards already out in the market.

The average monthly churn rates for Smart Prepaid subscribers were 7.4% and 6.8% for the nine months ended September 30, 2018 and 2017, respectively, while the average monthly churn rates for TNT subscribers were 6.3% and 7.1% for the nine months ended September 30, 2018 and 2017, respectively. The average monthly churn rates



for Sun Prepaid subscribers were 5.8% and 8.1% for the nine months ended September 30, 2018 and 2017, respectively.

The average monthly churn rates for Smart Postpaid subscribers were 2.1% and 2.4% for the nine months ended September 30, 2018 and 2017, respectively, and 3.3% and 3.6% for the nine months ended September 30, 2018 and 2017, respectively, for Sun Postpaid subscribers.

The following table summarizes our average monthly ARPUs for the nine months ended September 30, 2018 and 2017:

	Gross <sup>(1)</sup>		Increase (Decrease)		Net <sup>(2)</sup>		Increase (Decrease)	
	2018	2017	Amount	%	2018	2017	Amount	%
(amounts in Php)								
<b>Prepaid</b>								
<i>Smart</i>	128	118	10	8	116	107	9	8
<i>TNT</i>	79	80	(1)	(1)	72	74	(2)	(3)
<i>Sun</i>	89	87	2	2	81	81	—	—
<b>Postpaid</b>								
<i>Smart</i>	831	1,008	(177)	(18)	811	975	(164)	(17)
<i>Sun</i>	399	419	(20)	(5)	397	415	(18)	(4)

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

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

#### *Home Broadband*

Revenues from our Home Broadband services decreased by Php1,806 million, or 94%, to Php124 million for the nine months ended September 30, 2018 from Php1,930 million in the same period in 2017, mainly due to the transfer of *Ultera* and *WiMAX* businesses to PLDT.

#### *Digital Platforms and Mobile Financial Services*

Revenues from digital platforms and mobile financial services, as reported by *Voyager*, decreased by Php667 million, or 69%, to Php301 million for the nine months ended September 30, 2018 from Php968 million in the same period in 2017, mainly due to the transfer of *VIH* to *PCEV*.

#### *MVNO and Others*

Revenues from our MVNO and other services increased by Php982 million to Php1,326 million for the nine months ended September 30, 2018 from Php344 million in the same period in 2017, primarily due to facility service fees relating to *Ultera*, *WiMAX* and *Shops.Work Unplugged*, or *SWUP*, in 2018, partially offset by lower revenue contribution from MVNOs of PLDT Global.

#### *Non-Service Revenues*

Our wireless non-service revenues consist of sale of mobile handsets, mobile broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php1,972 million, or 57%, to Php5,406 million for the nine months ended September 30, 2018 from Php3,434 million in the same period in 2017, primarily due to the impact of adoption of PFRS 15.

#### *Expenses*

Expenses associated with our wireless business amounted to Php58,558 million for the nine months ended September 30, 2018, a decrease of Php2,814 million, or 5%, from Php61,372 million in the same period in 2017. A significant portion of the decrease was mainly attributable to lower selling, general and administrative expenses, interconnection costs, provisions, and noncurrent asset impairment in 2017, partially offset by higher cost of sales and services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 87% in each of the nine months ended September 30, 2018 and 2017.



The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 2018 and 2017 and the percentage of each expense item in relation to the total:

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
	(amounts in million Php)					
Selling, general and administrative expenses	29,341	50	32,082	52	(2,741)	(9)
Depreciation and amortization	15,710	27	15,713	26	(3)	—
Cost of sales and services	7,568	13	6,148	10	1,420	23
Interconnection costs	4,017	7	4,835	8	(818)	(17)
Provisions	1,922	3	2,205	3	(283)	(13)
Noncurrent asset impairment	—	—	389	1	(389)	(100)
<b>Total</b>	<b>58,558</b>	<b>100</b>	<b>61,372</b>	<b>100</b>	<b>(2,814)</b>	<b>(5)</b>

Selling, general and administrative expenses decreased by Php2,741 million, or 9%, to Php29,341 million, primarily due to lower expenses related to rent, professional and other contracted services, selling and promotions, taxes and licenses, and compensation and employee benefits, partly offset by higher repairs and maintenance expenses.

Depreciation and amortization charges of Php15,710 million, which include depreciation due to shortened life of certain data network platform and other technology equipment of Php4,511 million resulting from the transformation projects to improve and simplify the network and systems applications, decreased by Php3 million.

Cost of sales and services increased by Php1,420 million, or 23%, to Php7,568 million, primarily due to higher issuances of mobile handsets and cost of SIM packs.

Interconnection costs decreased by Php818 million, or 17%, to Php4,017 million, primarily due to lower interconnection cost on domestic and international voice and SMS services, as well as lower interconnection charges on international data roaming.

Provisions decreased by Php283 million, or 13%, to Php1,922 million, primarily due to lower provision for doubtful accounts and provision for inventory obsolescence.

#### **Other Income (Expenses)**

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the nine months ended September 30, 2018 and 2017:

	2018	2017	Change	
			Amount	%
	(amounts in million Php)			
<b>Other Income (Expenses):</b>				
Financing costs – net	(1,346)	(1,819)	473	26
Foreign exchange losses – net	(496)	(468)	(28)	(6)
Equity share in net earnings (losses) of associates and joint ventures	62	(102)	164	161
Interest income	436	237	199	84
Gain on derivative financial instruments – net	489	326	163	50
Other income – net	269	576	(307)	(53)
<b>Total</b>	<b>(586)</b>	<b>(1,250)</b>	<b>664</b>	<b>53</b>

Our wireless business' other expenses amounted to Php586 million for the nine months ended September 30, 2018, a decrease of Php664 million, or 53%, from Php1,250 million in the same period in 2017, primarily due to the combined effects of the following: (i) lower net financing costs by Php473 million mainly due to higher capitalized interest, lower financing charges and lower weighted average loan principal amount; (ii) higher interest income by Php199 million; (iii) equity share in net earnings of associates of Php62 million in the first nine months of 2018 as against equity share in net losses of Php102 million in the same period in 2017; (iv) higher net gains on derivative financial instruments by Php163 million; (v) higher net foreign exchange losses – net by Php28 million; and (vi) lower other income – net by Php307 million mainly due to lower income from consultancy and other miscellaneous income, partly offset by lower impairment on Smart's investment in AFPI.

### ***Provision for Income Tax***

Provision for income tax amounted to Php2,221 million for the nine months ended September 30, 2018, a decrease of Php530 million, or 19%, from Php2,751 million in the same period in 2017.

### ***Net Income***

As a result of the foregoing, our wireless business' net income increased by Php1,412 million, or 29%, to Php6,310 million for the nine months ended September 30, 2018 from Php4,898 million in the same period in 2017.

### ***EBITDA***

Our wireless business' EBITDA decreased by Php190 million, or 1%, to Php25,433 million for the nine months ended September 30, 2018 from Php25,623 million in the same period in 2017. EBITDA margin increased to 41% for the nine months ended September 30, 2018 from 38% in the same period in 2017.

### ***Core Income***

Our wireless business' core income increased by Php3,757 million, or 65%, to Php9,514 million for the nine months ended September 30, 2018 from Php5,757 million in the same period in 2017 on account of lower depreciation expense and net financing costs, partially offset by higher provision for income tax, and lower EBITDA and other miscellaneous income.

### **Fixed Line**

#### ***Revenues***

Revenues generated from our fixed line business amounted to Php63,336 million for the nine months ended September 30, 2018, an increase of Php5,261 million, or 9%, from Php58,075 million in the same period in 2017.

The following table summarizes our total revenues by service from our fixed line business for the nine months ended September 30, 2018 and 2017:

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
	(amounts in million Php)					
<b>Service Revenues:</b>						
Voice	18,818	30	21,468	37	(2,650)	(12)
Data	40,440	64	32,570	56	7,870	24
Miscellaneous	1,233	2	1,428	2	(195)	(14)
	60,491	96	55,466	95	5,025	9
<b>Non-Service Revenues:</b>						
Sale of computers, phone units and point-product sales	2,845	4	2,609	5	236	9
<b>Total Fixed Line Revenues</b>	<b>63,336</b>	<b>100</b>	<b>58,075</b>	<b>100</b>	<b>5,261</b>	<b>9</b>

#### ***Service Revenues***

Our fixed line service revenues increased by Php5,025 million, or 9%, to Php60,491 million for the nine months ended September 30, 2018 from Php55,466 million in the same period in 2017, due to higher revenues from our data services, partially offset by lower voice and miscellaneous service revenues. In the second quarter of 2018, the revenue split allocation between voice and data for our fixed line bundled plans was revised to reflect the result of a recent network usage study from our fixed line business.

##### *Voice Services*

Revenues from our voice services decreased by Php2,650 million, or 12%, to Php18,818 million for the nine months ended September 30, 2018 from Php21,468 million in the same period in 2017, primarily due to lower revenues from local exchange, international and domestic services. The decline was partly due to the continued popularity of services such as Skype, Viber, Line, Facebook Messenger, Google Talk and WhatsApp, offering free OTT calling services, and other similar services, as well as the impact of the revised revenue split allocation. The percentage contribution of voice service revenues to our fixed line service revenues accounted for 31% and 39% for the nine months ended September 30, 2018 and 2017, respectively.

### Data Services

The following table shows information of our data service revenues for the nine months ended September 30, 2018 and 2017:

	2018	2017	Increase	
			Amount	%
	(amounts in million Php)			
Data service revenues	40,440	32,570	7,870	24
Home broadband	19,934	13,158	6,776	51
Corporate data and ICT	20,506	19,412	1,094	6

Our data services posted revenues of Php40,440 million for the nine months ended September 30, 2018, an increase of Php7,870 million, or 24%, from Php32,570 million in the same period in 2017, primarily due to higher home broadband revenues from DSL and Fibr, higher corporate data and leased lines, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues accounted for 67% and 59% for the nine months ended September 30, 2018 and 2017, respectively.

#### Home Broadband

Home broadband data revenues amounted to Php19,934 million for the nine months ended September 30, 2018, an increase of Php6,776 million, or 51%, from Php13,158 million in the same period in 2017. This growth is driven by increasing demand for broadband services which the company is providing through its existing copper network and a nationwide roll-out of its fiber-to-the-home, or FTTH, network, as well as the impact of the revised revenue split allocation. Home broadband revenues accounted for 49% and 40% of total data service revenues in the nine months ended September 30, 2018 and 2017, respectively. In the first nine months of 2018, PLDT's FTTH nationwide network rollout has passed 5.75 million homes.

#### Corporate Data and ICT

Corporate data services amounted to Php17,505 million for the nine months ended September 30, 2018, an increase of Php599 million, or 4%, as compared with Php16,906 million in the same period in 2017. Corporate data revenues accounted for 43% and 52% of total data services in the nine months ended September 30, 2018 and 2017, respectively.

ICT revenues increased by Php495 million, or 20%, to Php3,001 million for the nine months ended September 30, 2018 from Php2,506 million in the same period in 2017 mainly due to higher revenues from colocation and managed IT services. The percentage contribution of this service segment to our total data service revenues accounted for 8% in each of the first nine months of 2018 and 2017.

#### Miscellaneous Services

Miscellaneous service revenues are derived mostly from rentals and management fees. These service revenues decreased by Php195 million, or 14%, to Php1,233 million for the nine months ended September 30, 2018 from Php1,428 million in the same period in 2017 mainly due to lower management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues accounted for 2% in each of the first nine months of 2018 and 2017.

#### Non-service Revenues

Non-service revenues increased by Php236 million, or 9%, to Php2,845 million for the nine months ended September 30, 2018 from Php2,609 million in the same period in 2017, primarily due to higher sale of computer bundles, *Telpad* units and *Ultera* devices, partially offset by lower sale of hardware and software, *FabTab* for *myDSL* retention, and *TVolution* units.

#### Expenses

Expenses related to our fixed line business totaled Php50,720 million for the nine months ended September 30, 2018, an increase of Php5,170 million, or 11%, as compared with Php45,550 million in the same period in 2017. The increase was primarily due to higher selling, general and administrative expenses, depreciation and amortization, and provisions. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 80% and 78% for the nine months ended September 30, 2018 and 2017, respectively.



The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2018 and 2017 and the percentage of each expense item in relation to the total:

	2018	%	2017	%	Increase (Decrease)	
					Amount	%
	(amounts in million Php)					
Selling, general and administrative expenses	29,542	58	27,348	60	2,194	8
Depreciation and amortization	11,704	23	9,834	21	1,870	19
Cost of sales and services	3,620	7	3,561	8	59	2
Interconnection costs	3,612	7	3,596	8	16	—
Provisions	2,242	5	1,211	3	1,031	85
Total	50,720	100	45,550	100	5,170	11

Selling, general and administrative expenses increased by Php2,194 million, or 8%, to Php29,542 million primarily due to higher professional and other contracted services, rent, and repairs and maintenance expenses, partly offset by lower compensation and employee benefits, mainly as a result of lower MRP costs.

Depreciation and amortization charges increased by Php1,870 million, or 19%, to Php11,704 million mainly due to a higher depreciable asset base.

Cost of sales and services increased by Php59 million, or 2%, to Php3,620 million, primarily due to higher cost of services, partly offset by lower cost of hardware and software, *Fabtab* for *myDSL* retention, and *TVolution* units.

Interconnection costs increased by Php16 million to Php3,612 million, primarily due to higher international interconnection costs, as a result of an increase in international inbound calls that terminated to other domestic carriers, partly offset by lower data interconnection costs.

Provisions increased by Php1,031 million, or 85%, to Php2,242 million, primarily due to higher provision for doubtful accounts mainly due to lower collection efficiency, and higher provision for inventory obsolescence.

#### **Other Income (Expenses)**

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the nine months ended September 30, 2018 and 2017:

	2018	2017	Change	
			Amount	%
	(amounts in million Php)			
Other Income (Expenses):				
Financing costs – net	(3,941)	(3,846)	(95)	(2)
Foreign exchange losses	(36)	(76)	40	53
Equity share in net earnings of associates	152	145	7	5
Gains on derivative financial instruments – net	282	324	(42)	(13)
Interest income	649	535	114	21
Other income – net	1,934	1,738	196	11
Total	(960)	(1,180)	220	19

Our fixed line business' other expenses amounted to Php960 million for the nine months ended September 30, 2018, a decrease of Php220 million, or 19%, from Php1,180 million in the same period in 2017, mainly due to the combined effects of the following: (i) higher other income – net by Php196 million; (ii) higher interest income by Php114 million; (iii) lower foreign exchange losses by Php40 million; (iv) higher equity share in net earnings of associates by Php7 million; (v) lower net gains on derivative financial instruments by Php42 million; and (vi) higher net financing costs by Php95 million.

#### **Provision for Income Tax**

Provision for income tax amounted to Php2,483 million for the nine months ended September 30, 2018, a decrease of Php616 million, or 20%, from Php3,099 million in the same period in 2017.

### **Net Income**

As a result of the foregoing, our fixed line business registered a net income of Php9,173 million for the nine months ended September 30, 2018, an increase of Php927 million, or 11%, as compared with Php8,246 million in the same period in 2017.

### **EBITDA**

Our fixed line business' EBITDA increased by Php1,961 million, or 9%, to Php24,320 million for the nine months ended September 30, 2018 from Php22,359 million in the same period in 2017. EBITDA margin remained stable at 40% in the first nine months in 2018 and 2017.

### **Core Income**

Our fixed line business' core income increased by Php1,172 million, or 15%, to Php8,982 million for the nine months ended September 30, 2018 from Php7,810 million in the same period in 2017, primarily as a result of higher EBITDA and lower provision for income tax, partially offset by higher depreciation expense.

### **Others**

#### **Revenues**

Revenues generated from our other business amounted to Php610 million for the nine months ended September 30, 2018, an increase of Php602 million from Php8 million in the same period in 2017, primarily due to the transfer of VIH from Smart to PCEV in April 2018.

#### **Expenses**

Expenses related to our other business totaled Php1,957 million for the nine months ended September 30, 2018, an increase of Php1,914 million from Php43 million in the same period in 2017, due to higher selling, general and administrative expenses, as well as depreciation expenses, resulting from the transfer of VIH to PCEV.

#### **Other Income (Expenses)**

The following table summarizes the breakdown of other income (expenses) for other business segment for the nine months ended September 30, 2018 and 2017:

	2018	2017	Change	
			Amount	%
			(amounts in million Php)	
Other Income (Expenses):				
Interest income	419	436	(17)	(4)
Gain on derivative financial instruments – net	282	–	282	100
Equity share in net earnings (losses) of associates and joint ventures	(15)	2,691	(2,706)	(101)
Financing costs – net	(113)	(148)	35	24
Foreign exchange losses – net	(359)	(243)	(116)	(48)
Other income – net	2,577	6,422	(3,845)	(60)
Total	2,791	9,158	(6,367)	(70)

Our other business' other income decreased by Php6,367 million, or 70%, to Php2,791 million for the nine months ended September 30, 2018 from Php9,158 million in the same period in 2017, primarily due to the combined effects of the following: (i) lower other income – net by Php3,845 million mainly due to gain on sale of Beacon shares in 2017, partly offset by gain in fair value of Rocket Internet investment in 2018; (ii) equity share in net losses of associates and joint ventures of Php15 million in the first nine months of 2018 as against equity share in net earnings of associates and joint ventures of Php2,691 million in the same period in 2017 mainly due to sale of Beacon shares and SPi Global in 2017; (iii) higher net foreign exchange losses by Php116 million; (iv) lower interest income by Php17 million; and (v) net gains on derivative financial instruments of Php282 million in the first nine months of 2018 as against nil in the same period in 2017.





### Net Income

As a result of the foregoing, our other business segment registered a net income of Php1,225 million for the nine months ended September 30, 2018, a decrease of Php7,812 million, or 86%, from Php9,037 million in the same period in 2017.

### Core Income

Our other business segment's core income amounted to Php781 million for the nine months ended September 30, 2018, a decrease of Php9,080 million, or 92%, as compared with Php9,861 million in the same period in 2017, primarily due to lower other income and equity share in net losses of associates and joint ventures in 2018, as well as lower EBITDA, mainly from VIH.

### Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2018 and 2017, as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2018 and December 31, 2017:

	Nine Months ended September 30,	
	2018	2017
	(amounts in million Php)	
<b>Cash Flows</b>		
Net cash flows provided by operating activities	42,622	27,355
Net cash flows used in investing activities	(17,988)	(4,843)
<i>Payment for purchase of property and equipment, including capitalized interest</i>	40,484	10,993
Net cash flows used in financing activities	(14,038)	(36,247)
Net increase (decrease) in cash and cash equivalents	12,301	(13,354)
<b>Capitalization</b>		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	164,965	157,654
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,258	14,957
Total interest-bearing financial liabilities	179,223	172,611
Total equity attributable to equity holders of PLDT	109,478	106,842
	288,701	279,453
<b>Other Selected Financial Data</b>		
Total assets	470,841	459,444
Property and equipment	194,748	186,907
Cash and cash equivalents	45,206	32,905
Short-term investments	4,846	1,074

Our consolidated cash and cash equivalents and short-term investments totaled Php50,052 million as at September 30, 2018. Principal sources of consolidated cash and cash equivalents for the nine months ended September 30, 2018 were cash flows from operating activities amounting to Php42,622 million, proceeds from availment of long-term debt of Php20,500 million, proceeds from disposal of Rocket Internet shares of Php11,400 million, proceeds from sale of Metro Pacific Investments Corporation, or MPIC, receivables of Php6,976 million, collection of receivables from MPIC of Php4,731 million, proceeds from disposal of Hastings PDRs to PLDT Beneficial Trust Fund, or BTF, of Php1,664 million and interest received of Php904 million. These funds were used principally for: (1) payment for purchase of property and equipment, including capitalized interest, of Php40,484 million; (2) debt principal and interest payments of Php16,458 million and Php4,802 million, respectively; (3) cash dividend payments of Php13,798 million; and (4) net payment for purchase of short-term investments of Php3,450 million.



Our consolidated cash and cash equivalents and short-term investments totaled Php34,037 million as at September 30, 2017. Principal sources of consolidated cash and cash equivalents in the first nine months of 2017 were cash flows from operating activities amounting to Php27,355 million, proceeds from availment of long-term debt of Php25,255 million, proceeds from disposal of remaining Beacon shares of Php12,000 million, proceeds from issuance of perpetual notes of Php4,200 million, collection of receivable from MPIC of Php2,001 million, proceeds from disposal of investments available-for-sale of Php1,000 million, interest received of Php953 million, dividends received of Php833 million, proceeds from disposal of property and equipment of Php445 million, and proceeds from disposal of investment properties of Php319 million. These funds were used principally for: (1) debt principal and interest payments of Php36,500 million and Php5,402 million, respectively; (2) cash dividend payments of Php16,464 million; (3) capital expenditures, including capitalized interest, of Php10,993 million; (4) net reduction in capital expenditures under long-term financing of Php7,246 million; (5) net payment for purchase of short-term investments of Php5,762 million; and (6) payment for purchase of investment in associates and joint ventures, mainly payment to VTI and Bow Arken of Php5,494 million and Php100 million additional funding to AFPI.

### ***Operating Activities***

Our consolidated net cash flows provided by operating activities increased by Php15,267 million, or 56%, to Php42,622 million for the nine months ended September 30, 2018 from Php27,355 million in the same period in 2017, primarily due to lower level of settlement of accounts payable and other liabilities, higher operating income, lower corporate taxes paid and lower pension contribution, partially offset by lower collection of receivables and higher inventories.

Cash flows provided by operating activities of our wireless business increased by Php15,492 million, or 114%, to Php29,131 million for the nine months ended September 30, 2018 from Php13,639 million in the same period in 2017, primarily due to lower level of settlement of accounts payable and other liabilities and lower corporate taxes paid, partially offset by lower operating income. Cash flows provided by operating activities of our fixed line business increased by Php2,677 million, or 19%, to Php16,420 million for the nine months ended September 30, 2018 from Php13,743 million in the same period in 2017, primarily due to lower level of settlement of accounts payable and other liabilities, higher operating income and lower pension contribution, partly offset by lower collection of receivables, higher inventories and higher corporate taxes paid. Cash flows used in operating activities of our other business increased by Php1,777 million to Php2,598 million for the nine months ended September 30, 2018 from Php821 million in the same period in 2017 mainly due to lower collection of receivables and higher operating loss, partly offset by lower level of settlement of accounts payable.

### ***Investing Activities***

Consolidated net cash flows used in investing activities amounted to Php17,988 million for the nine months ended September 30, 2018, an increase of Php13,145 million from Php4,843 million in the same period in 2017, primarily due to the combined effects of the following: (1) higher payment for purchase of property and equipment, including capitalized interest, by Php29,491 million; (2) lower proceeds from disposal of investment in associates and joint ventures by Php11,954 million mainly due to proceeds from disposal of the remaining Beacon shares in 2017; (3) proceeds from redemption of Beacon's Class B Preferred Shares of Php1,000 million in 2017; (4) dividends received of Php833 million in 2017; (5) proceeds from disposal of Hastings PDRs to PLDT BTF of Php1,664 million; (6) lower net payment for purchase of short-term investments by Php2,312 million; (7) higher collection of receivables from MPIC by Php2,730 million; (8) lower payment for purchase of investments in associates and joint ventures by Php5,483 million; (9) proceeds from sale of MPIC receivables of Php6,976 million; and (10) proceeds from sale of Rocket Internet shares of Php11,400 million in 2018.

Our consolidated payment for purchase of property and equipment, including capitalized interest, for the nine months ended September 30, 2018 totaled Php40,484 million, an increase of Php29,491 million as compared with Php10,993 million in the same period in 2017. Smart Group's capital spending increased by Php21,989 million to Php28,004 million for the nine months ended September 30, 2018 from Php6,015 million in the same period in 2017. Smart Group's capex spending was primarily focused on expansion of LTE (4G) coverage and capacity. PLDT's capital spending increased by Php6,914 million to Php11,282 million for the nine months ended September 30, 2018 from Php4,368 million in the same period in 2017. PLDT's capex spending was used to finance the modernization program and the continuous facility roll-out and expansion of our domestic fiber optic network, as well as expansion of our data center business. The balance represents other subsidiaries' capital spending.

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

### *Financing Activities*

On a consolidated basis, cash flows used in financing activities amounted to Php14,038 million for the nine months ended September 30, 2018, a decrease of Php22,209 million, or 61%, from Php36,247 million in the same period in 2017, resulting largely from the combined effects of the following: (1) lower payments of long-term debt and interest by Php20,042 million and Php600 million, respectively; (2) net settlement of capital expenditures under long-term financing of Php7,246 million in 2017; (3) lower cash dividend payments by Php2,666 million; (4) proceeds from issuance of perpetual notes of Php4,200 million in 2017; and (5) lower proceeds from availment of long-term debt by Php4,755 million.

#### *Debt Financing*

Proceeds from availment of long-term debt for the nine months ended September 30, 2018 amounted to Php20,500 million, mainly from PLDT's and Smart's drawings related to the financing of capital expenditure requirements and refinancing of maturing loan obligations. Payments of principal and interest on our total debt amounted to Php16,458 million and Php4,802 million, respectively, for the nine months ended September 30, 2018.

Our consolidated long-term debt increased by Php6,612 million, or 4%, to Php179,223 million as at September 30, 2018 from Php172,611 million as at December 31, 2017, primarily due to drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar, partly offset by debt amortizations. As at September 30, 2018, the long-term debt level of Smart increased by 9% to Php68,289 million from Php62,388 as at December 31, 2017, and PLDT's long-term debt level increased by 1% to Php110,934 million from Php110,223 million as at December 31, 2017.

See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements for a more detailed discussion of our long-term debt.

#### *Debt Covenants*

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

As at September 30, 2018 and 2017, we are in compliance with all of our debt covenants.

See *Note 20 – Interest-bearing Financial Liabilities – Compliance with Debt Covenants* to the accompanying unaudited consolidated financial statements for a more detailed discussion of our debt covenants.

#### *Financing Requirements*

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



The following table shows the dividends declared to shareholders from the earnings for the nine months ended September 30, 2018 and 2017:

Earnings	Approved <sup>(1)</sup>	Date Record	Payable	Amount	
				Per share	Total
(in million Php, except per share amount)					
2018					
Common					
Regular Dividend	March 27, 2018	April 13, 2018	April 27, 2018	28	6,050
	August 9, 2018	August 28, 2018	September 11, 2018	36	7,778
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	January 22, 2018	February 21, 2018	March 15, 2018	—	12
	May 10, 2018	May 25, 2018	June 15, 2018	—	12
	August 9, 2018	August 28, 2018	September 15, 2018	—	13
	November 8, 2018	November 23, 2018	December 15, 2018	—	12
Voting Preferred Stock	March 8, 2018	March 28, 2018	April 15, 2018	—	3
	June 13, 2018	June 29, 2018	July 15, 2018	—	2
	September 25, 2018	October 9, 2018	October 15, 2018	—	2
Charged to Retained Earnings					13,884
2017					
Common					
Regular Dividend	March 7, 2017	March 21, 2017	April 6, 2017	28	6,050
	August 10, 2017	August 25, 2017	September 8, 2017	48	10,371
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	February 7, 2017	February 24, 2017	March 15, 2017	—	12
	May 12, 2017	May 26, 2017	June 15, 2017	—	12
	August 10, 2017	August 25, 2017	September 15, 2017	—	13
	November 9, 2017	November 23, 2017	December 15, 2017	—	12
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	—	3
	June 13, 2017	June 27, 2017	July 15, 2017	—	2
	September 26, 2017	October 10, 2017	October 15, 2017	—	2
Charged to Retained Earnings					16,477

<sup>(1)</sup> Dividends were declared based on total amount paid up.

See *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

### Changes in Financial Conditions

Our total assets amounted to Php470,841 million as at September 30, 2018, an increase of Php11,397 million, or 2%, from Php459,444 million as at December 31, 2017, primarily due to higher cash and cash equivalents and short-term investments, property and equipment, and trade and other receivables, partially offset by lower financial assets at fair value through profit and loss, mainly due to sale of Rocket Internet shares, and lower financial assets at fair value through other comprehensive income, mainly on account of sale of MPIC receivables. Starting 2018, available-for-sale financial investments are presented as financial assets at fair value through profit or loss according to PFRS 9.

Our total liabilities amounted to Php357,065 million as at September 30, 2018, an increase of Php8,804 million, or 3%, from Php348,261 million as at December 31, 2017 significantly due to higher interest-bearing financial liabilities, combined with higher accounts payable, and accrued expenses and other liabilities.

### Off-Balance Sheet Arrangements

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

### *Equity Financing*

On August 2, 2016, the PLDT Board of Directors approved the amendment of our dividend policy, reducing our dividend payout rate to 60% of our core earnings per share as regular dividends. This was in view of the elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share, and the resources required to support the acquisition of SMC's telecommunications business. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core earnings for 2015 and 60% of our core earnings for 2016 and 2017. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rate and remits the dollar dividends abroad, net of any applicable withholding tax.

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

Consolidated cash dividend payments for the nine months ended September 30, 2018 amounted to Php13,798 million as compared with Php16,464 million paid to shareholders in the same period in 2017.

### ***Contractual Obligations and Commercial Commitments***

#### *Contractual Obligations*

For a detailed discussion of our consolidated contractual undiscounted obligations as at September 30, 2018 and 2017, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

#### *Commercial Commitments*

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to nil and Php88 million as at September 30, 2018 and December 31, 2017, respectively. These commitments will expire within one year.

### **Quantitative and Qualitative Disclosures about Market Risks**

Our operations are exposed to various risks, including liquidity risk, foreign currency exchange risk, interest rate risk, credit risk and capital management risk. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations, equity issuances and sale of certain assets.

For further discussions of these risks, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.



The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at September 30, 2018 and June 30, 2018 other than those whose carrying amounts are reasonable approximations of fair values:

	Fair Values	
	September 30, 2018	June 30, 2018
	(amounts in million Php)	
<b>Noncurrent Financial Assets</b>		
Debt instruments at amortized cost – net of current portion	146	150
Financial assets at fair value through other comprehensive income – net of current portion	2,771	2,806
Other financial assets – net of current portion	2,009	2,257
<b>Total noncurrent financial assets</b>	<b>4,926</b>	<b>5,213</b>
<b>Noncurrent Financial Liabilities</b>		
Interest-bearing financial liabilities	146,719	160,046
Customers' deposits	1,527	1,597
Deferred credits and other noncurrent liabilities	1,261	5,056
<b>Total noncurrent financial liabilities</b>	<b>149,507</b>	<b>166,699</b>

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the nine months ended September 30, 2018 and the six months ended June 30, 2018:

	September 30,	June 30,
	2018	2018
	(amounts in million Php)	
<b>Profit and Loss</b>		
Interest income	1,396	916
Gains on derivative financial instruments – net	1,053	1,011
Accretion on financial liabilities	(108)	(73)
Interest on loans and other related items	(6,169)	(4,013)
<b>Other Comprehensive Income</b>		
Net fair value losses on cash flow hedges – net of tax	(146)	(136)
Net gains (losses) on available-for-sale financial investments – net of tax	10	(4,327)

### Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines for the nine months ended September 30, 2018 and 2017 were 5.0% and 2.8%, respectively. We expect inflation to be high given the outlook of the government of 4.8% to 5.2%.

## PART II – OTHER INFORMATION

### ***External Funding in VIH***

On October 4, 2018, PLDT, as the ultimate Parent Company of PCEV, VIH, Vision Investment Holdings Pte. Ltd., or Vision, an entity indirectly controlled by KKR & Co., Inc., or KKR, and Cerulean Investment Limited, or Cerulean, an entity indirectly owned and controlled by Tencent Holdings Limited, or Tencent, entered into subscription agreements under which Vision and Cerulean, or the Lead Investors, will separately subscribe to and VIH will allot and issue to the Lead Investors a total of up to US\$175 million Convertible Class A Preferred Shares of VIH, with an option for VIH to allot and issue up to US\$50 million Convertible Class A Preferred Shares to such follower investors as may be agreed among VIH, PLDT and the Lead Investors, or the upsize option.

Upon the closing of the transaction, which is expected within the fourth quarter of 2018, PLDT will remain as the majority shareholder of VIH and will continue to be involved in VIH's digital payments, Lendr and freenet businesses, amongst others. However, if VIH were to issue additional shares to the follower investors pursuant to its upsize option, PLDT's ownership in VIH would be reduced to less than 50% while still remaining as the largest shareholder.

The foregoing investment in VIH is not subject to the compulsory merger notification regime under the Philippine Competition Act and its implementing rules and regulations. In addition, the Bangko Sentral ng Pilipinas confirmed that it interposes no objection to the investment.

### ***ePLDT's Additional Investment in ePDS***

On August 7, 2018, the Board of Directors of ePLDT approved the additional investment in ePDS amounting to Php66 million, thereby increasing its equity interest in ePDS from 67% to 95%.

### ***Sale of Rocket Internet Shares***

On April 16, 2018, Rocket Internet announced the buyback of up to 15.5 million Rocket Internet shares through a public share purchase offer, or the Offer, against payment of an offer price in the amount of €24 per share. PLDT Online Investments Pte. Ltd., or PLDT Online, committed to accept the Offer of Rocket Internet for at least 6.8 million shares, or approximately 67.4% of the total number of Rocket Internet shares directly held by PLDT Online.

On May 4, 2018, Rocket Internet accepted the tender of PLDT Online of 6.8 million shares, for a total consideration of €163.2 million, or Php10,059 million, which was settled on May 9, 2018, reducing the equity ownership in Rocket Internet from 6.1% to 2.0%.

On May 23, 2018, Rocket Internet redeemed 10.8 million shares, reducing its share capital of the company to €154 million. As a result of the redemption of shares, PLDT Online's equity ownership in Rocket Internet increased from 2.0% to 2.1%.

On various dates in the third quarter of 2018, PLDT Online sold 0.7 million Rocket Internet shares for an aggregate amount of €22 million, or Php1,346 million, reducing the equity ownership in Rocket Internet from 2.1% to 1.7%.

### ***iCommerce's Investment in Philippines Internet Holding S.à.r.l., or PHIH***

On January 20, 2015, PLDT and Rocket Internet entered into a joint venture agreement designed to foster the development of internet-based businesses in the Philippines. PLDT, through its subsidiary, Voyager, and Asia Internet Holding S.à r.l., or AIH, which is 50%-owned by Rocket Internet, were the initial shareholders of the joint venture company PHIH. iCommerce, former subsidiary of Voyager, replaced the latter as shareholder of PHIH on October 14, 2015 and held a 33.33% equity interest in PHIH.

The objective of PHIH was the creation and development of online businesses in the Philippines, the leveraging of local market and business model insights, the facilitation of commercial, strategic and investment partnerships, and the acceleration of the rollout of online startups in the Philippines. In accordance with the underlying agreements, iCommerce paid approximately €7.4 million to PHIH as contribution to capital. Payment of another contribution by iCommerce to the PHIH capital of approximately €2.6 million was requested in 2016 and remained outstanding.



On September 5, 2017, AIH initiated arbitral proceedings via the German Arbitration Institute (DIS) against iCommerce for not settling the €2.6 million contribution. AIH required the payment of €2.6 million plus interest and all costs of the arbitral proceedings.

On December 14, 2017, the management and operations of iCommerce was transferred from VIH to PLDT Online. As a result, VIH ceased to have any direct interest in iCommerce and any indirect interest in PHIH. See *Note 2 – Summary of Significant Accounting Policies – Transfer of iCommerce to PLDT Online*.

On April 19, 2018, iCommerce, together with PLDT and Voyager, executed a Settlement Agreement with AIH to terminate the arbitral proceedings and to settle disputes over rights and obligations in connection with the PHIH agreements. On the same date, iCommerce executed a Share Transfer Agreement with AIH to transfer its PHIH shares to AIH. As a result, iCommerce gave up its 33.33% equity interest for zero value and its claims over the remaining cash of PHIH. iCommerce, AIH and PHIH waived all other claims in connection with PHIH, including any claims against iCommerce.

In separate letters dated April 26, 2018, iCommerce and AIH informed the DIS that both parties have concluded an out-of-court settlement with AIH requesting for the termination of the arbitral proceedings.

On May 7, 2018, iCommerce received the order of the DIS for the termination of the arbitral proceedings and the administrative fees to be paid in relation to the arbitral proceedings. With the foregoing, iCommerce has completed the exit from the joint venture.

#### ***Consolidation of the Digital Investments of Smart under PCEV***

On February 27, 2018, the Board of Directors of PCEV approved the consolidation of the various digital investments under PCEV.

On March 14, 2018, PCEV entered into a Share Purchase Agreement with Voyager to purchase 53 million ordinary shares of VIH, representing 100% of the issued and outstanding ordinary shares of VIH, for a total consideration of Php465 million. The total consideration was settled on March 15, 2018, while the transfer of shares to PCEV was completed on April 6, 2018.

On March 14, 2018, VIH entered into Share Purchase Agreement with Smart to purchase all of its 170 million common shares of Voyager for a total consideration of Php3,527 million. The total consideration was settled on April 16, 2018.

On April 12, 2018, PCEV entered into a Subscription Agreement with VIH to subscribe to additional 96 million ordinary shares of VIH with a par value of SG\$1.00 per ordinary shares, for a total subscription price of SG\$96 million, or Php3,806 million, which was settled on April 13, 2018.

#### ***PCEV's Sale of Receivables from MPIC***

On March 2, 2018, PCEV entered into a Receivables Purchase Agreement, or RPA, with various financial institutions, or the Purchasers, to sell a portion of its receivables from MPIC due in 2019 to 2021 amounting to Php5,550 million for a total consideration of Php4,852 million, which was settled on March 5, 2018. Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

On March 23, 2018, PCEV entered into another RPA with a financial institution to sell a portion of its receivables from MPIC due in 2019 amounting to Php2,230 million for a total consideration of Php2,124 million, which was settled on April 2, 2018.

#### ***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.



On September 28, 2018, PLDT and Amdocs expanded their strategic partnership under a new six-year service agreement to consolidate, modernize and manage PLDT and Smart's IT Infrastructure, to further enhance customer experience and engagement.

#### ***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.

#### ***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 costs 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 telecommunications company. With the foregoing, PLDT is deemed to have fully complied with its obligation to divest from 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 unaudited consolidated financial statements for further details.

For updates on matters relating to the (1) Department of Labor and Employment, or DOLE, Compliance Order to PLDT, see *Note 26 – 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 26 – Provisions and Contingencies*, to the accompanying unaudited consolidated financial statements.

#### **Related Party Transactions**

For a detailed discussion of the related party transactions, see *Note 24 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.





## ANNEX I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at September 30, 2018:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
	(amounts in million Php)				
Retail subscribers	19,692	10,971	1,213	249	7,259
Corporate subscribers	9,896	2,551	2,383	885	4,077
Foreign administrations	4,428	1,672	268	237	2,251
Domestic carriers	378	12	216	27	123
Dealers, agents and others	19,959	6,694	1,183	1,351	10,731
Total	54,353	21,900	5,263	2,749	24,441
Less: Allowance for doubtful accounts	15,394				
Total Receivables - net	38,959				

## ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at September 30, 2018 and 2017:

	2018	2017
Current Ratio <sup>(1)</sup>	0.66:1.0	0.55:1.0
Net Debt to Equity Ratio <sup>(2)</sup>	1.18:1.0	1.19:1.0
Net Debt to EBITDA Ratio <sup>(3)</sup>	1:94:1.0	2.18:1.0
Total Debt to EBITDA Ratio <sup>(4)</sup>	2.69:1.0	2.71:1.0
Asset to Equity Ratio <sup>(5)</sup>	4.30:1.0	3.81:1.0
Interest Coverage Ratio <sup>(6)</sup>	2.09:1.0	4.63:1.0
Profit Margin <sup>(7)</sup>	14%	18%
Return on Assets <sup>(8)</sup>	2%	6%
Return on Equity <sup>(9)</sup>	7%	23%
EBITDA Margin <sup>(10)</sup>	43%	43%

- <sup>(1)</sup> Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)
- <sup>(2)</sup> Net Debt to equity ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.
- <sup>(3)</sup> Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.
- <sup>(4)</sup> Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) divided by EBITDA for the 12 months average period.
- <sup>(5)</sup> Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.
- <sup>(6)</sup> Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the 12 months average period, divided by total financing cost for the 12 months average period.
- <sup>(7)</sup> Profit margin is derived by dividing net income for the period with total revenues for the period.
- <sup>(8)</sup> Return on assets is measured as net income for the 12 months average period divided by average total assets.
- <sup>(9)</sup> Return on Equity is measured as net income for the 12 months average period divided by average total equity attributable to equity holders of PLDT.
- <sup>(10)</sup> EBITDA margin is measured as EBITDA for the period divided by service revenues for the period. EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, 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 for the period.



---

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the nine months of 2018 to be signed on its behalf by the undersigned thereunto duly authorized.

Signature and Title: \_\_\_\_\_

A handwritten signature in black ink, appearing to read 'Manuel V. Pangilinan', written over a horizontal line.

**MANUEL V. PANGILINAN**  
Chairman of the Board  
President and Chief Executive Officer

Signature and Title: \_\_\_\_\_

A handwritten signature in black ink, appearing to read 'Anabelle Lim-Chua', written over a horizontal line.

**ANABELLE LIM-CHUA**  
Senior Vice President  
(Principal Financial Officer)

Signature and Title: \_\_\_\_\_

A handwritten signature in blue ink, appearing to read 'June Cheryl A. Cabal-Revilla', written over a horizontal line.

**JUNE CHERYL A. CABAL-REVILLA**  
Senior Vice President  
(Principal Accounting Officer)

Date: November 8, 2018