Exterran Corp
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
Filed by the Registrant Filed by a Party other than the Registrant
Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12
EXTERRAN CORPORATION
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Date Filed:

OUR CORE VALUES

Our core values guide our actions as individuals and as a Company. The foundation of our values is our commitment to people and safety. Together they shape our culture, results and reputation.

Dear Fellow Stockholders:
I am pleased to open this letter to you, our stockholders, by highlighting that we increased our stock price 31.5% in 2017, following our 48.9% increase in 2016. We are one of the top performers in our peer group and in the broader energy and equipment and services industry. In addition, Exterran executed on several key internal initiatives in 2017, established the foundation for implementing value-creating, long-term strategic goals and delivered solid financial performance.

I want to share with you here some of the things we are doing to continue-as we did in 2017-to increase our services and products offerings, increase profitability and generate strong cash flow. I also want to share some of the things we are doing to operate sustainably as a good corporate citizen.

In 2018 and beyond, we intend to execute on a global strategy that will help Exterran evolve into a systems and process company serving customers in the areas of oil, natural gas, power generation and water. At the same time, our Board and management will continue to focus on building and maintaining a strong foundation for the Company, highlighted by ensuring a culture of accountability and core values are in place, supported by internal processes, systems and controls.

We are also continuing to update and strengthen our governance foundation. We have annual director elections, one-share-one vote, an experienced and diverse board, a mandatory board retirement age, pay-for-performance compensation, superb internal and external pay parity and best-in-class stockholding requirements. We received 98% support for our 2017 pay referendum, “say on pay.” In 2017, we also removed our super-majority vote provision to amend our Bylaws and provided for majority voting to elect our directors.

We also work hard at being a good steward of our environment, a good member of our community, and a good employer to our over 4,400 employees. We make no political contributions and channel our community and charitable activities through our Exterran Cares™ program. We place heavy emphasis on creating opportunities for our people through our recruiting, training and benefits programs. And we prioritize global safety standards through our Goal Zero™ initiative. The nature of our business also enables us to assist our customers in becoming more energy efficient. And our Board, via its committees, oversees our environmental and social risks and opportunities.

We reached out to many of you during the year and continue to expand our engagement efforts. We believe we can learn a lot from people who have placed their faith in us through their investments. You will find in this proxy information on how to contact us throughout the year as well as information about what is up for a vote, how to vote and how to join us at our annual meeting.

On behalf of the entire Board of Directors and our employees, thank you for your continued support and investment in Exterran Corporation.

Sincerely,

Mark R. Sotir
Executive Chairman of the Board
March 16, 2018

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Place:

Thursday, April 26, 2018, jointly at 8:30 a.m. Central Daylight time at King & Spalding LLP, 1111 Louisiana Street, Suite 4000, Houston, Texas, USA and at 5:30 p.m. Gulf Standard Time at King & Spalding LLP, Al Fattan Currency House, Tower 2, Level 24, Dubai International Financial Centre, Dubai, UAE. We are holding a live annual meeting simultaneously in two locations by tele-video conferencing in order to allow our international stockholders to attend in person. The meeting is being held for the following purposes:

Items of Business:

- to elect seven directors to serve for a term expiring at the next annual meeting of stockholders;
- to conduct an advisory vote to approve the compensation of Exterran Corporation's named executive officers;
- to ratify the appointment of Deloitte & Touche LLP as Exterran Corporation's independent registered public accounting firm for fiscal year 2018;
- to approve an amendment to Exterran Corporation's Amended and Restated Certificate of Incorporation to eliminate the super-majority vote required for stockholders to amend the Company's Amended and Restated Bylaws; and
- to transact such other business as may properly come before the meeting or any adjournment thereof.

Record Date:

The record date for the determination of stockholders entitled to vote at our 2018 Annual Meeting of Stockholders or any adjournments or postponements thereof is the close of business on February 28, 2018.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting of Stockholders, we urge you to submit your vote by the Internet, telephone or mail.

By Order of the Board of Directors,

Valerie L. Banner
Vice President, General Counsel and Corporate Secretary
Exterran Corporation
Houston, Texas
March 16, 2018

Important Notice Regarding the Availability of Proxy Materials for the
Annual Meeting of Stockholders to be held on April 26, 2018
We are making our Proxy Statement and Annual Report available to our stockholders electronically via the Internet. We will mail most of our stockholders a Notice on or about March 16, 2018, containing instructions on how to access this Proxy Statement and our Annual Report over the Internet and Vote by Internet or telephone. All stockholders who do not receive a Notice should receive a paper copy of the proxy materials by mail. Stockholders may access the proxy materials at www.exterran.com or www.proxyvote.com or request a printed set of the proxy materials be sent to them by following the instructions in the Notice.

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PROXY SUMMARY

The following is a summary of certain key information in our Proxy Statement. For complete information, please review this Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2017. In this Proxy Statement, we refer to Exterran Corporation as "Exterran," the "Company," "we" or "us."

2018 Annual Meeting Information

Date:	Thursday, April 26, 2018
Time:	Jointly by tele-video conferencing at 8:30 a.m. Central Daylight Time and 5:30 p.m. Gulf Standard Time, respectively
Place:	King & Spalding LLP, 1111 Louisiana Street, Suite 4000, Houston, Texas, USA and Al Fattan Currency House, Tower 2, Level 24, Dubai International Financial Centre, Dubai, UAE
Record Date:	February 28, 2018

For additional information about the 2018 Annual Meeting of Stockholders see Frequently Asked Questions About the Meeting and Voting beginning on page 58.

Voting Matters and Board Recommendations

Proposals		Board Recommendation	Page
Proposal 1	Election of Directors	FOR each Director Nominee	5
Proposal 2	Advisory Vote to Approve Named Executive Officer Compensation	FOR	49
Proposal 3	Ratification of Independent Registered Public Accounting Firm	FOR	50
Proposal 4	Approval of Amendment to Amended and Restated Certificate of Incorporation to Eliminate Super-Majority Vote Required for Stockholders to Amend Bylaws	FOR	53

You may vote in the following ways:

Using the Internet at http://www.proxyvote.com	Calling 1-800-690-6903 if in the United States and Canada	Mailing your signed and dated proxy card or voting instruction form	Attending the Annual Meeting

For telephone and Internet voting, you will need the 16-digit control number included on your Notice, proxy card or voting instruction form that accompanied your proxy materials. Internet and telephone voting is available through 11:59 p.m. Eastern Daylight Time on April 25, 2018 for all shares.

Our Business

Exterran is a global systems and process company offering natural gas processing and treating, compression and production products and services, and produced water treatment solutions in the oil, gas, water and power markets. Formed in late 2015 through a spin-off from Archrock, Inc., the creation of stockholder value is the foundation of our strategy. We strive to achieve this by delivering strong financial results through commercial and operational excellence, in part by leveraging our global resources and technical capabilities across our three global methods of going to market: Contract Operations, Product Sales and Aftermarket Services.

Our Board of Directors

The Exterran Board of Directors (the "Board") includes a diverse group of leaders in their respective fields. We believe their varied backgrounds, skills and experiences contribute to a balanced and diversified Board that is able to provide effective oversight of our Company and our senior executive team. Our Board members' skills and expertise include:

- executive leadership experience
- financial expertise
- governance and board service
- industry experience
- strategic planning
- risk management
- international business experience
- community involvement

The following chart sets forth information with respect to our seven nominees standing for election. Mr. Stewart is not standing for reelection at the Annual Meeting. The size of our Board will be reduced to seven members immediately following the Annual Meeting.

Name	Age	Independent	Director Since	Primary Occupation	Committee Memberships
William M. Goodyear (Lead Independent Director)	69	Yes	2015	Retired Executive Chairman and Chief Executive Officer of Navigant Consulting, Inc.	Audit (Chair) Compensation
James C. Gouin	58	Yes	2015	President and Chief Executive Officer of Tower International, Inc.	Audit Compensation
John P. Ryan	66	Yes	2015	Retired President and Chief Executive Officer of Dresser, Inc.	Audit Compensation (Chair) Nominating and Corporate Governance
Christopher T. Seaver	69	Yes	2015	Retired President and Chief Executive Officer of Hydril Company	Audit Compensation Nominating and Corporate Governance (Chair)

Mark R. Sotir Executive Chairman	54	No	2015	Executive Chairman and Director	
Andrew J. Way	46	No	2015	President, Chief Executive Officer and Director	
Ieda Gomes Yell	61	Yes	2015	Retired Managing Director, Energix Strategy Ltd.	Nominating and Corporate Governance

Corporate Governance Highlights

The Board is committed to sound and effective corporate governance practices and continually reviews best practices and views of our stockholders on various issues. Following is a summary of our key governance policies and practices:

Changes Since 2017 Annual Meeting	Following our Board's amendment of our Amended and Restated Bylaws ("Bylaws") to eliminate the super-majority vote required for stockholders to amend our Bylaws, we have included Proposal 4 in this proxy to make the same change in our Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") After review of best practices and discussions with stockholders, we amended our Bylaws to provide for majority voting in uncontested elections of directors We implemented a prohibition on pledging Company stock We increased the stockholder ownership guidelines for our Chief Executive Officer ("CEO") We expanded our stockholder engagement process
Corporate Governance Best Practices	We provide for: Annual election of directors Majority voting for directors Resignation policy for directors who do not receive majority vote Regular executive sessions of independent directors Lead Independent Director Mandatory director retirement policy Robust director and executive stock ownership guidelines Robust Code of Conduct No poison pill No political contributions
Lead Independent Director Responsibilities	Presides at executive sessions of the independent directors Calls meetings of the independent directors Serves as liaison between the Chairman and the independent directors Meets regularly with the Company's finance, compliance and internal audit management and independent advisers Briefs CEO on issues arising from executive sessions of independent directors

Sustainability and Corporate Social Responsibility

On an ongoing basis, we analyze material economic, environmental and social issues that impact our ability to create value for all of our stakeholders, including our stockholders, customers, employees and communities. We believe that Exterran can only be as successful as the communities we serve, and are committed to operating our business in a socially and environmentally responsible way. In 2017, we formed Exterran Cares™ to manage our contributions and volunteer programs. Through Exterran Cares™, in 2017 our Company and our employees contributed to numerous charitable and community initiatives, and our employees volunteered in numerous community service projects and activities, including providing volunteer and financial support to our employees and neighbors affected by Hurricane Harvey and the Mexico City earthquake. Our Company is committed to providing continued support to our global employees and communities.

We are also committed to the health and safety of our employees, contractors, visitors and community residents. We continuously assess the risks our employees face in their jobs, and we work to mitigate those risks through training,

work procedures and other preventative safety and health programs. In 2017, we enhanced our process safety programs, such as near-miss reporting, risk assessment and others. Through our Goal Zero™ initiative, we implemented one global set of safety standards and operationalized our core values. We are committed to pursuing a zero-incident safety culture by continuously working toward mitigating risk and eliminating incidents that may bring harm to our employees, contractors, the public and the environment.

Stockholder Engagement and Investor Outreach

Throughout the year, we meet with analysts and institutional investors to inform and share our perspective and to solicit their feedback on our performance. This includes participation in investor conferences and other formal events and group and one-on-one meetings throughout the year. We extended this process in 2017, and engaged with governance representatives of certain of our stockholders regarding corporate governance topics of mutual interest. We plan to further expand our engagement with our stockholders in 2018. We believe that perspectives provided by our stockholders provides valuable information to be considered in our decision making process.

2017 Business Highlights

The Company performed extremely well in 2017, both in terms of the financial results and in building the type of company we aspire to be to benefit all of our stakeholders. While the significant measure of our success is the financial results, we equally strive for commercial and operational excellence, knowing that those foundational elements will insure strong financial results in the future. In additional to our strong financial results, we took significant steps to ensure financial strength and a sound capital structure to prepare Exterran for global growth in new and existing markets, and continued to build commercial momentum as the industry recovery began and our commercial strategy took hold. See "CD&A Highlights - Our 2017 Business Results" on page 23 for additional information.

Executive Compensation Highlights

Exterran's executive compensation programs are based on a philosophy of "pay for performance." Our annual cash-based incentive plan incentivizes and rewards the achievement of financial and operational metrics that are deemed by the Compensation Committee to be consistent with the overall goals and strategic direction that the Board has approved for the Company. Our long-term equity-based incentive plan further aligns the interests of our executives and our stockholders by tying the value of equity awards granted to our stock price performance and the achievement of objectives that result in enhanced Company performance over time. By incentivizing our executives to achieve important financial and operational objectives and create long-term stockholder value, these programs play a key role in creating value for the benefit of our stakeholders, including our stockholders, customers, employees and the communities where we operate. Our executive compensation philosophy is guided by the following principles:

- Goal-oriented pay for performance. Individual annual cash and equity-based awards should be closely tied to the performance of the Company as a whole and reflect the individual performance of our executive officers.
- Align compensation with stockholder interests. By providing a portion of each executive officer's direct compensation in the form of equity-based incentives and requiring direct ownership by executives of Company stock, the interests of our executives and the Company's stockholders are aligned.
- Competitive compensation. Executive pay programs play a significant role in attracting, motivating and retaining our executives and future leaders, and should be in line with compensation of similar executive positions at peer companies.

For additional information on our executive compensation programs and policies and 2017 executive compensation, see "Compensation Discussion and Analysis" beginning on page 21.

BOARD OF DIRECTORS

PROPOSAL 1 - Election of Directors

Our Board of Directors has nominated for election as Directors at the Annual Meeting the seven nominees named below. Each nominee currently serves as a director of the Company and was elected by our stockholders at our 2017 annual meeting. Each nominee elected will serve until the 2019 Annual Meeting of Stockholders or until his or her successor has been elected and qualified or until his or her death, resignation or removal.

Each director nominee has consented to being named in this Proxy Statement and to serve as a director if elected. If for any reason one or more of these nominees is unavailable as a candidate or unable to serve when election occurs, the persons designated as proxies on the enclosed proxy card, in the absence of contrary instructions by stockholders, will in their discretion vote the proxies for the election of any of the other nominees or for a substitute nominee or nominees, if any, selected by the Board of Directors.

Your Board unanimously recommends that stockholders vote “FOR” the election of each of the nominees to the Board as set forth in this proposal.

A majority of the votes cast at the Annual Meeting is required to elect each director nominee. Our Bylaws and Corporate Governance Principles require that any nominee who receives a greater number of “against” votes than “for” votes must submit his or her resignation for consideration by our Board. Abstentions and broker non-votes are not considered to be cast, so they will not have any effect on the election of directors.

Director Nominee Qualifications

Each nominee brings a strong and unique background and set of skills to our Board of Directors, giving the Board of Directors as a whole diverse group of leaders with competence and experience in a wide variety of areas, including executive leadership, financial expertise, governance and board service, risk management, strategic planning, industry and international experience, and community involvement.

Key Skills and Qualifications	Importance
Executive Leadership	Directors who hold or have held significant leadership positions provide the Company with unique insights. These people generally possess extraordinary leadership qualities as well as the ability to identify and develop those qualities in others. Their experiences developing talent and solving problems in large, complex organizations prepare them well for the responsibilities of Board service.
Financial Expertise	Accurate financial reporting and robust auditing are critical to our success. Four of our directors qualify as audit committee financial experts, and all of our directors are literate in finance and financial reporting processes.
Governance & Board Service	As a publicly traded energy Company, we are regulated by the Securities and Exchange Commission ("SEC"), the New York Stock Exchange ("NYSE") and other governmental entities. As such, we seek directors with experience with publicly traded companies to provide insight and understanding of requirements and strategies in these areas.
Risk Management	Managing risk in a rapidly changing environment is critical to our success. Directors should have a sound understanding of the most significant risks facing the Company and the experience and leadership to provide effective oversight of risk management processes.
Strategic Planning	Experience in driving the strategic direction and growth provides the Company with needed oversight and guidance in the design and implementation of our strategic growth plan.
Industry Experience	Due to the complexity and volatility of our business, we believe it is important to have directors with experience in the energy industry or energy operations to enable the Board to provide effective oversight of our business and operations.
International Experience	With our global growth, directors having a global business awareness provide needed cultural and diverse experiences and competencies.
Community Involvement	Directors who are involved in community or charitable organizations understand the interests and needs of our customers and communities, and provide effective oversight of our social responsibilities to all our stakeholders.

Our Board is comprised of directors who have these skills and competencies as noted in the chart below:

Our 2018 Director Nominees

The following pages contain information regarding each of the nominees for director including business experience and qualifications. Mr. Stewart is not standing for reelection at the Annual Meeting and our Board has reduced the size of the full board from eight to seven directors effective immediately following the Annual Meeting.

WILLIAM M. GOODYEAR

Age 69
Director Since October 2015

Lead Independent Director

Exterran Board Committees

- Audit (Chair)
- Compensation

Other Public Boards

- Enova International, Inc.

Professional Experience

Mr. Goodyear served as Executive Chairman of the board of directors of Navigant Consulting, Inc., a specialized global consulting firm, from May 2000 to June 2014 and as its Chief Executive Officer from May 2000 to February 2012. Prior to December 1999, Mr. Goodyear served as Chairman and Chief Executive Officer of Bank of America Illinois and President of Bank of America's Global Private Bank. Between 1972 and 1999, Mr. Goodyear held a variety of positions with Continental Bank (subsequently Bank of America), specializing in corporate finance, corporate lending, trading and distribution. During his tenure with Continental Bank, Mr. Goodyear managed the bank's European and Asian Operations and served as Vice Chairman of Continental Bank's board of directors prior to its 1994 merger with Bank of America. Mr. Goodyear is a member of the board of trustees of the University of Notre Dame and the Museum of Science and

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- International Experience
- Community Involvement

Industry-Chicago, and serves as Chairman of the Rush University Medical Center. Mr. Goodyear received a B.B.A. from the University of Notre Dame and a M.B.A. from the Amos Tuck School of Business at Dartmouth College.

JAMES C. GOUIN

Age 58
Director Since November 2015

Independent

Exterran Board Committees

- Audit
- Compensation

Other Public Boards

- Tower International, Inc.

Professional Experience

Mr. Gouin was appointed President of Tower International, Inc. ("Tower"), a global manufacturer of engineered automotive products, in September 2016 and became Chief Executive Officer and a member of Tower's board of directors in January 2017. Mr. Gouin joined Tower in November 2007 as Executive Vice President and Chief Financial Officer. Prior to joining Tower, Mr. Gouin served in 2007 as a senior managing director of the corporate financial practice of FTI Consulting, Inc., a business advisory firm. Prior to joining FTI, Mr. Gouin spent 28 years at Ford Motor Company in a variety of senior positions, including as Vice President, Finance and Global Corporate Controller from 2003 to 2006 and as Vice President of Finance, Strategy and Business Development of Ford Motor Company's International Operations from 2006 to 2007. Mr. Gouin also served on the board of directors of Azure

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- International Experience
- Community Involvement

Dynamics Corp. from January 2009 until May 2012. Azure Dynamics filed for bankruptcy protection in April 2012. Mr. Gouin also served on the Board of Trustees of the University of Detroit Mercy until October 2017, and currently serves as Chairman of the Board of Directors of Vista Maria, a non-profit corporation. Mr. Gouin received a B.B.A. from the Detroit Institute of Technology and a M.B.A. from the University of Detroit Mercy.

JOHN P. RYAN

Age 66
Director Since October 2015

Independent

Exterran Board Committees

- Audit
- Compensation
- Nominating and Corporate Governance

Professional Experience

Mr. Ryan previously served as President and Chief Executive Officer of Dresser, Inc., a global provider of flow control products, measurement systems and other infrastructure technologies to the oil and gas and power generation industries, from May 2007 until February 2011. Mr. Ryan was President and Chief Operating Officer of Dresser, Inc. from December 2004 to June 2007. From 1987 to 2004, Mr. Ryan was employed by Dresser Wayne where he served as President from 1996 to 2004 and as Vice President from 1991 to 1996. He previously served on the board of directors of each of FlexEnergy, LLC, a provider of oil field turbine generators and environmental solutions for power generation, landfill gas and digester gas applications, from January 2012 to April 2013 and Wayne Fueling Systems, Inc., a privately-held global supplier of fuel dispensers, payment terminals and other measurement and control solutions to the retail and commercial fueling industry from April 2014 to November 2016. Prior to September 2017, Mr. Ryan served as a director of Hudson Products, Inc., a

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- Industry Experience
- International Experience
- Community Involvement

company engaged in the design, manufacture and servicing of heat transfer equipment for the petroleum, chemical, gas processing and electric utility industries, and currently serves as a director of The Village of Hope, a non-profit organization. Mr. Ryan received a B.A. from Villanova University.

CHRISTOPHER T. SEAVER

Age 69
Director Since October 2015

Independent

Exterran Board Committees

- Audit
- Compensation
- Nominating and Corporate Governance (Chair)

Other Public Boards

- Oil States International, Inc.
- McCoy Global, Inc.

Professional Experience

Mr. Seaver served as Chairman of the board of directors of Hydril Company, an oil and gas service company specializing in pressure control equipment and premium connections for casing and tubing, from 2006 until his retirement in May 2007. Mr. Seaver held a series of domestic and international management positions at Hydril Company from 1985 to May 2007, including as President since 1993 and Chief Executive Officer and director since 1997. Prior to joining Hydril Company, Mr. Seaver was a corporate and securities attorney for the law firm of Paul, Hastings, Janofsky & Walker LLP, and was a Foreign Service Officer in the U.S. State Department with postings in Kinshasa, Republic

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- Industry Experience
- International Experience
- Community Involvement

of Congo and Bogotá, Colombia. Mr. Seaver has served as a director and officer of the Petroleum Equipment Suppliers Association, a director of the American Petroleum Institute, and a director and Chairman of the National Ocean Industries Association. Mr. Seaver is currently on the board of trustees of two non-profit organizations. Mr. Seaver received an A.B. in Economics from Yale University and a J.D. and M.B.A. from Stanford University.

MARK R. SOTIR
Age 54
Director Since October 2015
Executive Chairman

Exterran Board Committees

Professional Experience

Mr. Sotir has served as director and Executive Chairman of the Company since October 2015. Mr. Sotir has also served as Co-President of the Equity Group Investments division of Chai Trust Company, LLC, a private investment firm ("EGI"), since October 2015, and served as Managing Director of EGI since November 2006. While at EGI, he served as the interim president of Tribune Interactive, a division of Tribune Company, a media conglomerate, from December 2007 until April 2008. Tribune Company filed for protection under Chapter 11 of the Bankruptcy Code in December 2008. Prior to joining EGI, Mr. Sotir was the Chief Executive Officer of Sunburst Technology Corporation, an independent distributor of educational software to public schools, from August 2003 to November 2006. Mr. Sotir serves on the board of directors of several EGI portfolio companies, including SIRVA Inc., a provider of moving and relocation services. Mr. Sotir is also involved in various charitable organizations. Mr. Sotir received a B.A. in Economics from Amherst College and an M.B.A. from Harvard Business School.

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- Industry Experience
- International Experience
- Community Involvement

ANDREW J. WAY
Age 46
Director Since October 2015
President and Chief Executive Officer

Exterran Board Committees

Professional Experience

Mr. Way is our President and Chief Executive Officer. He previously served as Vice President and Chief Executive Officer-Drilling and Surface Production of GE Oil & Gas, a provider of equipment and services in the oil and gas space, from 2012 through June 2015. Mr. Way joined GE Oil & Gas in October 2007 and previously served as General Manager Operations, Turbo Machinery Services from October 2007 to December 2008, as General Manager, Global Supply Chain from December 2008 to December 2010, and as Vice President and Chief Executive Officer-Turbo Machinery Services from December 2010 to June 2012. Prior to joining GE Oil & Gas, Mr. Way served as Operations Director and Managing Director-GE Equipment Services of GE Capital from 2001 to 2007 and held various positions at GE Aviation from 1996 to 2001. Mr. Way has served as an Advisory Director of the Petroleum Engineering and Services Association since August 2017, and is actively involved in various civic and charitable organizations. Mr. Way studied Mechanical Engineering and graduated from the technical leadership program with Lucas Industries in Wales, U.K.

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- Industry Experience
- International Experience
- Community Involvement

IEDA GOMES YELL

Age 61
Director Since October 2015

Independent

Exterran Board Committees

- Nominating and Corporate Governance

Other Public Boards

- Bureau Veritas S.A.
- Saint-Gobain S.A.

Professional Experience

Ms. Gomes Yell served as the Managing Director of Energix Strategy Ltd., an independent oil and gas consultancy firm, until October 2017. Before forming Energix, she served in a number of positions with BP plc and its subsidiaries from 1998 to 2011, including as President of BP Brazil, Vice President of Regulatory Affairs and Vice President of Market Development for BP Solar, and Vice President of Pan American Energy. From 1995 until 1998, Ms. Gomes Yell held a number of positions with Companhia de Gás de São Paulo, or Comgás, a Brazilian natural gas distributor, including as President and Chief Executive Officer. Ms. Gomes Yell is Chairman of the corporate governance committee of InterEnergy Holdings, a private power production company; a Councillor of the Brazilian Chamber of Commerce in Great Britain, a not-for-profit organization; a founding director of WILL Latam-Women in Leadership in Latin America, a non-profit organization; a member of the advisory board of Crystol Energy, an independent

Skills and Qualifications

- Executive Leadership
- Financial Expertise
- Governance & Board Service
- Risk Management
- Strategic Planning
- Industry Experience
- International Experience
- Community Involvement

consultancy and advisory firm; and a member of the advisory board of Comgás and of the Infrastructure Department of the São Paulo Federation of Industries. Ms. Gomes Yell is a senior visiting research fellow at the Oxford Institute for Energy Studies in the United Kingdom and Fundação Getúlio Vargas Energia in Brazil. Ms. Gomes Yell received her B.S. in Chemical Engineering from the University of Bahia, Brazil, a MSc. in Environmental Engineering from the Polytechnic School of Lausanne, Switzerland and a MSc. in Energy from the University of São Paulo, Brazil.

CORPORATE GOVERNANCE AT EXTERRAN

Exterran's Board of Directors

Our Board provides oversight with respect to our overall performance, strategic direction and key corporate policies. It approves major initiatives, advises on key financial and business objectives, and monitors progress with respect to these matters. Members of the Board are kept informed of our business by various reports and documents provided to them on a regular basis, including operating and financial reports presented at Board and Committee meetings by the Chief Executive Officer and other senior management.

Our Board Structure

Role of Lead Independent Director. Consistent with industry best practices and in accordance with the Company's Corporate Governance Principles, the Board has a Lead Independent Director to ensure that the Company maintains a corporate governance structure with appropriate independence and balance. The Lead Independent Director is elected by the independent directors, and presides at the executive sessions of the independent directors which are held in conjunction with each regularly scheduled meeting of the Board, and any other meetings as determined by the Lead Independent Director. Mr. Goodyear presently serves as Lead Independent Director.

Separation of Executive Chairman and CEO Roles. The Board recognizes the time, effort and energy that our Chief Executive Officer is required to devote to his position, as well as the commitment required to serve as our Executive Chairman, and has therefore divided these roles. The Board believes this structure is appropriate for the Company because of the size and composition of the Board, the scope and complexity of our operations and the responsibilities of the Board and management. Mr. Sotir serves as Executive Chairman and presides over the regular sessions of the Board and the executive sessions of the Board, held at every regularly scheduled Board meeting.

Director Independence

Board Members. A Director is considered independent if the Board affirmatively determines that the director has no material relationship with the Company (either directly, or as a partner, stockholder or officer of an organization that has a relationship with the Company). The Nominating and Corporate Governance Committee assesses director independence each year by considering all direct and indirect business relationships between Exterran and each director (including his or her immediate family), as well as relationships with other for-profit concerns and charitable organizations and related party transactions, to determine whether any such relationship or transaction would prohibit a director from being independent under SEC rules, NYSE listing standards and the Company's Corporate Governance Principles. Upon the Nominating and Corporate Governance Committee's recommendation, and review of each Director's relationships and related party transactions, the Board makes a determination relating to the independence of each member under SEC and NYSE rules and our Corporate Governance Principles.

During the Nominating and Corporate Governance Committee's most recent review of independence, the Committee was provided information regarding transactions with any related parties as determined through a search of our accounting records as well as the responses to the director and officer questionnaires; these relationships were reviewed by the Nominating and Corporate Governance Committee and approved by the Audit Committee, and none are required to be reported in this Proxy Statement.

Based on the recommendation of the Nominating and Corporate Governance Committee, the Board determined that the following current directors are independent: Messrs. Goodyear, Gouin, Ryan, Seaver and Stewart, and Ms. Gomes Yell. Mr. Sotir is not independent because he is the Executive Chairman of the Company, and Mr. Way is not independent because he is the President and Chief Executive Officer of the Company.

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Heightened Standards for Committee Members. In addition to the general independence requirements of the SEC and NYSE, all members of the Audit, Compensation and Nominating and Corporate Governance Committees must meet the heightened independence standards imposed by the SEC and NYSE applicable to members of such committees. Each member of the Audit, Compensation and Nominating and Corporate Governance Committees meets these heightened independence standards and each member of the Compensation Committee also qualifies as in independent director for purposes of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, all of the members of our Audit Committee qualify as "audit committee financial experts" under the federal securities laws, and pursuant to our Audit Committee Charter, none of our Audit Committee members serve on the audit committee of more than two other public companies.

Our Board Committees

The Board has designated an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee to assist in the discharge of the Board's responsibilities. The Board and the committees of the Board are governed by our Code of Conduct, our Corporate Governance Principles and the applicable committee charters, each of which are available to the public on our website at http://www.exterran.com or in print by submitting a written request to Exterran Corporation, 4444 Brittmoore Road, Houston, Texas 77041, Attention: Corporate Secretary.

Board Committee Responsibilities. The purpose and responsibilities of each committee are summarized in the table below:

Audit Committee	Assists the Board in fulfilling its oversight of financial risk exposures and implementation and effectiveness of the Company's compliance programs and internal controls Reviews the Company's policies with respect to financial risk assessment and financial risk management Monitors the integrity of the Company's financial statements and reporting systems and internal controls over financial reporting Appoints the independent auditors and monitors their qualifications and independence Monitors the performance of the Company's internal auditors and independent auditors Meets with and reviews reports from the Company's internal auditors and independent registered accounting firm Oversees environmental compliance, and climate, water and digital/cyber risks Oversees the Company's Code of Conduct and Ethics Helpline, and meets with the Chief Compliance Officer to receive information regarding compliance policies and procedures Monitors the business practices and ethical standards of the Company
Compensation Committee	Assists the Board in fulfilling its oversight of risks that may arise in connection with the Company's compensation programs and practices Reviews the Company's compensation philosophy strategy Reviews the Company's strategies and supporting processes for management succession planning, human capital and leadership development, executive retention and diversity Approves performance goals and total compensation for our President and CEO and conducts an annual review of the President and CEO's performance Reviews and approves total compensation for the Company's executive officers in consultation with the President and CEO Assesses and considers the independence of any adviser that provides advice to the Committee

Nominating and Corporate Governance Committee	Assists the Board in fulfilling its oversight of risks that may arise in connection the Company’s governance processes and composition of the Board Develops policies and practices relating to corporate governance and reviews compliance with the Company’s Corporate Governance Principles Reviews and recommends changes as appropriate in the Company’s Corporate Governance Principles, Certificate of Incorporation, Bylaws, and other Board-adopted governance provisions Identifies and recommends qualified individuals to become Board members Evaluates and recommends nominees for election as directors at the annual stockholders’ meetings or for appointment between annual stockholders’ meetings Reviews the composition and diversity of the Board and its committees and oversees the evaluation of the Board Oversees the Company’s stockholder engagement efforts

Board Committee Membership. Members of each committee are recommended by the Nominating and Corporate Governance Committee, except for the members of the Nominating and Corporate Governance Committee which are recommended by the Chairman. Committee members are elected by the Board at its first meeting following the annual meeting of stockholders to serve for one-year terms. All of the current members of our committees are independent. The following reflects the membership of our current committees:

Director	Independent	Board	Audit	Compensation	Nominating and Corporate Governance
William M. Goodyear*	L		C		
James C. Gouin*					
John P. Ryan*				C	
Christopher T. Seaver*					C
Mark R. Sotir		C			
Richard R. Stewart*					
Andrew J. Way					
Ieda Gomes Yell					
Number of 2017 Meetings	7	7	9	6	4

Member C Chair L Lead Independent Director * Financial Expert

Director Attendance

Board and Committee Meetings. We expect members of the Board to attend all Board meetings. The Board and its committees held the number of meetings listed in the table above during calendar year 2017. The Board acted by unanimous written consent three times and the Compensation Committee acted once. All directors attended, both individually and as a group, at least 75% of the meetings of the Board and Board committees on which they served during calendar year 2017.

Annual Stockholders Meeting. While we do not have a formal requirement relating to director attendance at our annual meeting of stockholders, all directors are strongly encouraged to attend. All Board members then in office attended our 2017 Annual Meeting of Stockholders.

Executive Session of the Independent Directors. The independent directors meet in executive session with the Lead Independent Director presiding (separate from management) at least four times a year. The executive sessions of the independent directors are held in conjunction with each regularly scheduled meeting of the Board, and any other meeting as determined by the Lead Independent Director. The independent directors met in executive session seven times in 2017.

Selection of Director Candidates

Our Nominating and Corporate Governance Committee is charged with reviewing the composition of the Board and refreshing the Board as appropriate through the recommendations it makes to the Board. The Nominating and Corporate Governance Committee believes that all Board candidates should be selected for their character, judgment, ethics, integrity, business experience, diversity, time commitment and acumen. The Board, as a whole, through its individual members, seeks to have competence in areas of particular importance to us such as finance and accounting, executive leadership, risk management, strategic planning, industry and international expertise, and community involvement.

Directors must be committed to enhancing the long-term interests of our stockholders as a whole and should not be biased toward the interests of any particular segment of the stockholder or employee population. Board members should also be prepared to travel, to attend meetings of the Board and its committees, and be ready to dedicate sufficient time to prepare in advance of such meetings to allow them to make an effective contribution to the meetings. Further, Board members should ensure that they are not otherwise committed to other activities which would make a commitment to the Board impractical or inadvisable. Director candidates should also satisfy the independence, qualification and composition requirements of the Board and its committees, as required by applicable law, rules and regulations of the NYSE and SEC, our Certificate of Incorporation, our Bylaws and our Corporate Governance Principles.

The Nominating and Corporate Governance Committee will consider candidates identified by current directors, management, third-party search firms engaged by the Committee, and stockholders. Stockholders who wish to recommend a candidate to the Nominating and Corporate Governance Committee or submit nominees for election at an annual or special meeting should follow the procedures described on page 57.

Diversity Policy for Director Candidates. The Nominating and Corporate Governance Committee considers issues of diversity in the director identification and nomination process. While the Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity, it seeks nominees with a broad diversity of experience, professions, skills, gender, race, education and backgrounds. The Nominating and Corporate Governance Committee does not assign specific weight to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Nominating and Corporate Governance Committee believes that backgrounds and qualifications of the directors considered as a group, should provide a significant composite mix of experience, knowledge, diversity and abilities that will allow the Board to fulfill its responsibilities.

Director Retirement Policy and Term Limits

To facilitate proactive Board succession planning and self-renewal, our Corporate Governance Principles provide that a person may not be nominated for election or re-election to the Board once he or she has reached the age of 75.

Director Orientation and Continuing Education

Upon joining the Board, as part of our onboarding process, new directors participate in a detailed orientation program that introduces them to the Company, including our business operations, strategies, key members of management and

corporate governance. Continuing education is provided for all directors through board materials and presentations on industry and corporate governance developments affecting the Company as well as critical strategic issues facing the Company. To enhance the Board's understanding of some of the unique issues affecting our business, directors are invited to visit our operating locations, where they tour the facilities and interact directly with the personnel responsible for our day-to-day operations. Directors also participate in the National Association of Corporate Directors (NACD) of which the Company is a member, and are encouraged to attend third-party director education programs.

Board Access to Senior Management, Independent Accountants and External Advisors

Directors have complete access to our independent accounting firm, senior management and other employees. They also have direct access to external counsel, advisors and experts of their choice with respect to any issues relating to the Board's discharge of its duties.

Our Board's Governance Roles

The Board's Role in Risk Oversight

The Board has an active role, as a whole and through its committees, in overseeing management of the Company's risks. The Board's role in the risk oversight process includes receiving regular reports from members of senior management on areas of material risk to us, including financial, operational, strategic, environmental, health and safety, and social risks and concerns. The Board's involvement in reviewing, approving and monitoring our fundamental financial and business strategies, as contemplated by our Corporate Governance Principles, is also important to the determination of the types and appropriate levels of risk we undertake.

The Board's committees, all comprised solely of independent directors, assist the Board in fulfilling its oversight responsibilities within their respective areas of responsibility. Our Audit Committee has the primary responsibility for overseeing risk management, including the management of financial risks and internal controls, corporate and regulatory compliance (including compliance with anti-bribery laws), environmental compliance, significant legal matters, insurance programs, market and credit risks, climate and water-related risks, and digital/cyber risks. The Audit Committee also oversees compliance with our Code of Conduct, and receives quarterly reports from our Internal Audit Vice President and our Chief Compliance Officer. The Compensation Committee considers and manages risks relating to our compensation programs and practices, leadership development, executive retention and succession planning. The Nominating and Corporate Governance Committee considers and manages risks relating to the composition of the Board and the Company's corporate governance and regulatory policies, including engagement with our stockholders. Each of these committees receives regular reports from management which assists it in its oversight of risk in its respective area of responsibility.

While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

How our Board and Committees Evaluate their Performance

Each year, the Board and each of its committees conduct an evaluation of their respective performance and effectiveness. This process is overseen by the Nominating and Corporate Governance Committee and is reviewed annually to determine whether it is well designed to maximize its effectiveness and to ensure that all appropriate feedback is being sought and obtained by the Nominating and Corporate Governance Committee. As part of this process, a comprehensive questionnaire is circulated to all members of the Board which asks the directors to assign ratings and comment on a wide range of issues relating to Board effectiveness, including Board and Committee structure and composition; Board and Committee succession planning; meeting structure, process and agendas; the Board evaluation process; management support and Board and management interface issues; and Board effectiveness. The collective ratings and comments are then compiled (on an anonymous basis), summarized and presented to the Nominating and Corporate Governance Committee and the full Board for discussion.

Our Commitment to Stockholder Engagement

Our commitment to understanding the interests and perspectives of our stockholders is a key component of our corporate governance strategy and compensation philosophy. Throughout the year, we meet with analysts and institutional investors to inform and share our perspective and to solicit their feedback on our performance. This includes participation in investor conferences, other formal events, and group and one-on-one meetings throughout the year. In early 2017, we extended our engagement process to governance representatives of certain of our stockholders to discuss corporate governance topics of mutual interest. We plan to further expand our engagement with our stockholders in 2018, as we believe the perspectives provided by our stockholders provide valuable information to be considered in our decision making process.

After considering feedback received from investors, we:

- Adopted Majority Voting for Amendments to our Bylaws. In April 2017, our Board amended our Bylaws to eliminate the super-majority voting requirement for stockholder amendments to the Bylaws that was in place when we became a public company and to instead allow stockholders to amend the Bylaws by a majority vote of the outstanding voting power, subject to the elimination of the super-majority voting requirement in our Certificate of Incorporation. We are asking our stockholders to approve an amendment to our Certificate of Incorporation to eliminate the super-majority voting requirement. See Proposal 4 for additional information.

- Adopted Majority Voting for Uncontested Director Elections. In January 2018, our Board amended our Bylaws to provide for the election of directors by a majority vote in uncontested elections.

- Adopted Anti-Pledging Policy. While we have always prohibited our executives and directors from engaging in derivative or speculative transactions involving Company stock, in February 2017, our Board extended this policy to also prohibit our executives and directors from pledging Company stock.

- Increased CEO Stock Ownership Guidelines. In October 2017, our Board increased our CEO's stock ownership requirement to six times his base salary.

Our 2017 Advisory Say-On-Pay Vote

The Company conducts an annual advisory vote on executive compensation. While the votes are not binding, the Compensation Committee believes that an annual Say-on-Pay advisory vote offers stockholders the opportunity to express their views regarding the Company's executive compensation programs and the Committee's decisions on executive compensation. At our 2017 Annual Meeting of Stockholders, approximately 98% of the votes cast with respect to our Say-on-Pay proposal were voted in favor of the Company's named executive officers' compensation. Given this high level of support for the Company's executive compensation programs, the Committee believes that the Company's stockholders are supportive of our current executive compensation pay practices.

Corporate Governance Documents and Code of Conduct

Our Corporate Governance Principles, Code of Conduct, Certificate of Incorporation, Bylaws and Board committee charters form the framework of our corporate governance. In 2017, the Board adopted our enhanced Code of Conduct which establishes our standards of ethical conduct. Our Code of Conduct is applicable to our Board, officers, employees and contractors, and a copy is provided to every employee and to our contractors in local languages. Our Code of Conduct reflects our beliefs, including our beliefs in fundamental human rights, protecting the rights of minority groups and women, and a fair wage for our employees. During 2017 we provided live training to over 98% of our employees on our Code of Conduct. We also enhanced our global Ethics Helpline in 2017. Our Ethics Helpline, administered by a third-party, is available in several languages and is monitored daily by our compliance department. Reports are provided to our senior management and the Board on a regular basis. Additionally, we have ongoing training programs for our management and employees on ethics, anti-corruption, anti-bribery, human rights, work-place harassment, and other risks associated with our business and operations. All of our governance documents are available at http://www.exterran.com and in print to any stockholder who requests a copy from the Company's Corporate Secretary.

Corporate Social Responsibility and Sustainability

On an ongoing basis, we analyze potentially material economic, environmental, health and safety, and social issues that could impact our ability to create value for our stakeholders. We engage in communications with key

stakeholders, as our stakeholders' input helps us guide our focus in these important areas.

We believe that Exterran can only be as successful as the communities we serve, and are committed to operating our business in a socially and environmentally responsible way. Our commitment to social responsibility is reflected in various Company initiatives, including our community contributions and outreach efforts. In 2017, we formed Exterran Cares™ to manage our contributions and volunteer efforts. Through Exterran Cares™, in 2017 our Company and our employees contributed to numerous charitable and community initiatives, and our employees volunteered in numerous community service projects and activities, including volunteer and financial assistance and support to our employees and neighbors affected by Hurricane Harvey and the Mexico City earthquake. Our company is committed to providing continued support to our global employees and communities.

We are also committed to the health and safety of our employees, contractors, visitors and community residents. We continuously assess the risks our employees face in their jobs, and we work to mitigate those risks through training, work procedures and other preventative safety and health programs. In 2017, we enhanced our process safety programs, such as near-miss reporting, risk assessment and others. Through our Goal Zero™ initiative, we implemented one global set of safety standards and operationalized our core values. We are committed to pursuing a zero-incident safety culture by continuously working toward mitigating risk and eliminating incidents that may bring harm to our employees, contractors, the public and the environment. In order to achieve our corporate and operational safety goals, we expect that:

- all employees, visitors and contractors are obligated to stop work they consider to be unsafe;
- all employees must be committed to safety and compliance;
- all employees have the responsibility to report potential safety risks, incidents and near misses;
- all employees and contractors must consider the protection of human health and safety and the environment a priority; and
- all employees and contractors must comply with all applicable laws, regulations, permits, policies and procedures, including those related to health, safety and the environment.

Communication with our Board

Stockholders or other interested parties may communicate with the entire Board or any individual member of the Board by writing to us at the following address: Exterran Corporation, 4444 Brittmoore Road, Houston, Texas 77041, Attention: Corporate Secretary. In addition, any concern or inquiry may be communicated to the Audit Committee or the Board by calling our Ethics Helpline (administered by a third-party) at 1-800-281-5439 (United States) or 1-832-554-4859 (outside of the United States).

Relevant communications are distributed to the Board, or to any individual committee, director or directors, as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Board has requested that certain items unrelated to the duties and responsibilities of the Board should be excluded or redirected, as appropriate, such as: business solicitations or advertisements; junk mail and mass mailings; resumes and other forms of job inquiries; spam; and surveys. In addition, material that is unduly hostile, threatening, potentially illegal or similarly unsuitable will be excluded; however, any communication that is excluded will be made available to any outside director upon request.

NON-EMPLOYEE DIRECTOR COMPENSATION

Our Compensation Committee is responsible for recommending non-employee director compensation to the full Board for approval. The Company uses a combination of cash and equity compensation to attract and retain qualified candidates to serve on the Board. The Compensation Committee periodically reviews non-employee director compensation with the advice of its independent compensation consultant and makes recommendations to the Board for any changes it considers appropriate. In making such recommendations, the Compensation Committee considers the type and amount of compensation paid to non-employee directors by comparable companies and time required for directors to fulfill their duties to the Company, as well as the backgrounds and expertise required by the Company of members of the Board. As Executive Chairman of the Board, Mr. Sotir is an officer, but not an employee, of the Company. Mr. Way, who is both a director and our President and Chief Executive Officer, does not receive additional compensation for his service on the Board.

In February 2016, in light of market conditions, the Compensation Committee determined to reduce the annual equity grants and retainers payable to our non-employee directors in respect of their service as members of the Board in 2016. The Compensation Committee for similar reasons determined to maintain these reduced equity grants and retainers for 2017. In February 2018, the Compensation Committee determined to reinstate the annual equity grants and retainers to non-employee directors to pre-2016 levels.

Cash-Based Compensation

Annual Cash Retainer and Meeting Fees. In 2017, each of our non-employee directors received an annual retainer equal to $45,000 as well as a payment of $1,500 for each meeting attended. Due to the significant time required by the Executive Chairman to fulfill his responsibilities as a result of the Company’s decision to divide the roles of Executive Chairman and CEO, our Executive Chairman received an additional annual retainer of $180,000. The Lead Independent Director received an additional annual retainer of $22,500. The chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee each received additional annual retainers of $13,500, $13,500 and $9,000, respectively. All retainers were paid in equal quarterly installments.

Equity-Based Compensation

All non-employee directors also receive an annual grant of common stock. In March 2017, the Compensation Committee approved an annual grant of fully-vested common stock to non-employee directors valued at approximately $112,500 on the date of grant in respect of their service in 2017. The number of shares awarded was based on the market closing price of our common stock on the applicable grant date.

Deferral Plan. We also maintain the Directors’ Amended and Restated Stock and Deferral Plan (the “Directors’ Plan”), pursuant to which directors may elect to receive all or a portion of their retainer and meeting fees in stock and to defer their receipt of such stock by receiving phantom units that become payable in shares of our common stock on the deferral date. During 2017, Mr. Ryan and Ms. Gomes Yell elected to defer their compensation pursuant to the Directors’ Plan.

Other Benefits

The Company reimburses non-employee directors for their out-of-pocket expenses in attending Board and committee meetings and director education programs. Our directors do not receive tax gross ups on any benefits they receive.

Stock Ownership Guidelines

The Board believes the alignment of directors' interests with those of our stockholders is strengthened when Board members are also stockholders. This view is reflected in the compensation arrangements for non-employee directors, which provide for the payment of a substantial majority of the compensation of non-employee directors in shares of Exterran common stock. The Board also has adopted guidelines that require each director to own an amount of our common stock equal to at least five times the annual cash retainer amount (which at December 31, 2017 equals $225,000 of our common stock) within three years of his or her election to the Board. Both directly-owned shares and unvested restricted stock count toward satisfaction of this policy. We measure the stock ownership of our directors annually as of October 31. All of our directors were elected to the Board in late 2015, and therefore have until late 2018 to meet this ownership requirement.

2017 Director Compensation Table

The following table shows the total compensation earned by each non-employee director for their service during 2017:

Name	Fees Earned or Paid in Cash (1)	Fees Earned or Paid in Stock (1)(3)	Stock Grants(2)(3)	Total
William M. Goodyear(4)	$—	$109,500	$ 112,500	$222,000
James C. Gouin	$72,000	$—	$ 112,500	$184,500
John P. Ryan(4)	$—	$93,000	$ 112,500	$205,500
Christopher T. Seaver(4)	$—	$90,000	$ 112,500	$202,500
Mark R. Sotir(4)	$148,125	$87,375	$ 112,500	$348,000
Richard R. Stewart	$67,500	$—	$ 112,500	$180,000
Ieda Gomes Yell(4)	$—	$60,000	$ 112,500	$172,500

(1) Messrs. Goodyear, Ryan and Seaver, and Ms. Gomes Yell received their retainer and meeting fees in the form of our common stock for the period January 1 through December 31, 2017. Mr. Sotir received one-half of his retainer and meeting fees in the form of common stock and one-half in the form of cash for the period of April 1, 2017 through December 31, 2017.

(2) Annual grant of fully-vested common stock to non-employee directors valued at approximately $112,500 on the date of grant in respect of 2017 service.

(3) Represents the grant date fair value of our common stock, calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification 718, "Stock Compensation" ("ASC 718"). For further discussion on the fair value of our common stock, see Note 19 to the consolidated and combined financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(4) Following the completion on January 4, 2017 of the Company's restatement of its 2016 financial statements ("Restatement"), the Company made a grant on January 6, 2017 of common stock under the Amended and Restated Directors' Stock and Deferral Plan representing payment of retainer and meeting fees paid in stock for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016. Messrs. Goodyear, Ryan, Seaver and Sotir were each paid in stock valued at $102,750, $59,250, $85,500 and $66,750 respectively, and Ms. Gomes Yell was paid in stock valued at $63,750.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the Compensation Committee recommended to Exterran's Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee of the Board of Directors

John P. Ryan, Chair
William M. Goodyear
James C. Gouin
Christopher T. Seaver
Richard R. Stewart

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (“CD&A”) describes our executive compensation philosophy, practices and programs, and compensation decisions made under those programs for our named executive officers (“NEOs”) for fiscal year 2017, who are listed below.

Name	Title
Andrew J. Way	President and Chief Executive Officer
David A. Barta	Senior Vice President and Chief Financial Officer
Girish K. Saligram	Senior Vice President Global Services
Roger George	Senior Vice President Global Engineering and Product Lines
Christopher T. Werner*	Former Senior Vice President Global Operations

*Mr. Werner’s employment terminated effective March 10, 2017.

This CD&A should be read together with the compensation tables and related disclosures under “Executive Compensation Tables” beginning on page 38.

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CD&A Highlights

Business Overview and Strategies

Exterran is a global systems and process company offering natural gas, process and treating, compression and production products and services, and produced water solutions in the oil, gas, water and power markets. Formed in 2015, the creation of stockholder value is the foundation of our strategy. We strive to achieve this by delivering strong financial results through commercial and operational excellence, in part by leveraging our global resources and technical capabilities across our three global methods of going to market: Contract Operations, Product Sales and Aftermarket Services.

Our primary strategic focus involves the growth of our business through expanding our product and services offerings by leveraging our portfolio of products and services. We intend to infuse technology and innovation into our existing midstream products and services while developing new product and service offerings in water treatment and integrated power generation. Additionally, our strategic focus includes targeting redevelopment opportunities in the U.S. energy market and expansions into new international markets benefiting from the global energy infrastructure build-out. We plan to supplement our organic growth with select acquisitions, partnerships and other commercial arrangements in key markets to further enhance our geographic reach, product offerings and other capabilities.

As part of our strategy, we intend to continue to capitalize on our competitive strengths to meet our customers' needs through the following:

- Expand our customer base and deepen relationships with existing customers. We believe the unique, broad range of services we offer, the quality of our products and services and our diverse geographic footprint position us to attract new customers and cross-sell our products and services to existing customers. In addition, we have significant experience and a long history of providing our products and services to our customers which, coupled with the technical expertise of our experienced personnel, enables us to understand and meet our customers' needs, particularly as those needs develop and change over time. We intend to continue to devote significant business development resources to market our products and services, leverage existing relationships and expedite our growth potential. Additionally, we seek to evolve our products and services offerings by developing new technologies that will allow us to provide solutions to the critical midstream infrastructure needs of our customers.

- Enhance our safety performance. We believe our safety performance and reputation help us to attract and retain customers and employees. We have adopted rigorous processes and procedures to facilitate our compliance with safety regulations and policies. We work diligently to meet or exceed applicable safety regulations, and intend to continue to focus on our safety monitoring function as our business grows and operating conditions change.

- Continue to optimize our global platform, products and services and enhance our profitability. We regularly review and evaluate the quality of our operations, products and services and portfolio of our product and service offerings. This process includes assessing the quality of our performance and potential opportunities to create value for our customers. We believe the development and introduction of new technology into our existing products and services will create more value for us in the market place, which we believe will further differentiate us from our competitors. Additionally, we believe our ongoing focus on improving the quality of our operations, products and services results in greater satisfaction among our customers, which we believe results in greater profitability and value for our shareholders.

Our 2017 Business Results

The Company performed extremely well in 2017, both in terms of the financial results and in building the type of company we aspire to be to benefit all of our stakeholders. While the significant measure of our success is the financial results, we equally strive for commercial and operational excellence, knowing that these foundational elements will ensure strong financial results in the future.

2017 Financial Results. During a year of market recovery, we reported strong results with 2017 exceeding our 2016 performance, and we took significant steps to ensure financial strength and a sound capital structure to prepare Exterran for global growth in new and existing markets. Our 2017 financial highlights include:

- 2017 revenue increased to $1.2 billion, a 34% increase from 2016.
- 2017 net income increased to $33.9 million from a net loss of $277.9 million in 2016.
- EBITDA, as adjusted[(1)] increased 11% from 2016 levels.
- Operating cash flow was $150 million.
- Our Restatement was finalized and significant improvements were made in the control environment.
- $375 million in high yield notes were issued, strengthening our capital structure and flexibility.
- Exterran's stock price increased 31.5%, ranking us among the top performers in oilfield services and our peer group.

Commercial Excellence. In 2017, we continued to build commercial momentum as the industry recovery began and our commercial strategy took hold. 2017 commercial highlights include:

- Global Product Sales bookings increased to almost $890 million - more than double 2016 orders.
- Contract Operations renewals and bookings increased to over 1.4x reported sales.
- Global Product Sales backlog increased to $461 million at the end of the year, a 51% increase over 2016.

Operational Excellence. The business delivered strong operating performance across the regions and continued to build a strong foundation to support new growth opportunities. 2017 operational highlights include:

- Strong performance against our safety metrics, including an increased number of Company incident free days and a reduction in recordable injuries.
- Improved margins in our Product Sales segment through productivity, to reach gross margins of 11.6% in the fourth quarter, compared to 3.2% in the fourth quarter of 2016. For the full year, margins were 10.4% compared to 6.9% in 2016.
- Contract Operations segment gross margin improved 110 basis points through productivity.
- SG&A cost leverage of 290 basis points, resulting in SG&A of 14.5% of revenue.
- Year-end working capital improved to 10.5% of sales excluding discontinued operations, from 26.7% at year-end 2016.
- Year-end days sales outstanding improved to 71 days, down from 91 days at the end of 2016.
- Our multi-year product and growth strategy was developed and implemented.
- Our corporate governance was strengthened, including launching our enhanced Code of Conduct and Ethics Helpline.
- We substantially completed the wind-down of the Belleli EPC business.
- We built out and integrated our Hamriyah facility into our global manufacturing infrastructure.
- We added significant management talent to augment an already strong leadership team.

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(1) EBITDA, as adjusted, is a non-GAAP financial measure. EBITDA, as adjusted, is defined, reconciled to net income (loss) and discussed further in "Appendix A."

Our Executive Compensation Best Practices

Our compensation programs are based upon a foundation of strong governance practices and are regularly reviewed to align with best practices in the market.

What We Do	What We Don’t Do
ü Hold an annual Say-On Pay advisory vote	û No employment contracts with any of our NEOs
ü Pay for performance	û No hedging or pledging of, or speculative trading in, Exterran common stock
ü Target our CEO’s long-term compensation mix so that over 55% is performance-based restricted stock units rather than time-based restricted stock awards	û No 280G excise tax “gross-up” payments in the event of a change of control
ü Require a “double trigger” for severance payments or equity acceleration in the event of a change of control	û No tax “gross ups” on any executive compensation other than relocation benefits available to all eligible employees
ü Retain an independent external compensation consultant and review independence annually	û No option repricing or cash buy-outs for underwater options without stockholder approval
ü Require our CEO to own 6 times base salary in stock and our other executives to own 3 times base salary in stock	û No perquisites
ü Require executives to hold substantially all equity compensation received from the Company until stock ownership guidelines are met	
ü Use an appropriate peer group when making compensation decisions and review it regularly	
ü Condition grants of long-term equity on non-disclosure, non-solicitation and non-compete restrictions	
ü Mitigate undue risk-taking in compensation programs	
ü Require minimum vesting period for executive equity awards	

Our Compensation Philosophy

Exterran's executive compensation programs are based on a philosophy of "pay for performance," the cornerstone of our compensation design. We reward individuals for performance and contributions to business success. We believe the executive pay programs described in this section and the accompanying tables have played a significant role in our ability to attract, retain and reward the highly-experienced and successful executives and employees needed to drive sustained high performance through financial and operational results. Our annual cash-based incentive plan incentivizes and rewards the achievement of operational and financial metrics that are deemed by the Compensation Committee to be consistent with the overall goals and strategic direction the Board has approved for the Company. Our long-term, equity-based incentive plan further aligns the interests of our executives and our stockholders by tying the value of equity awards granted to our stock price performance and the achievement of objectives that result in enhanced Company performance over time. By incentivizing our executives to achieve important financial and operational objectives and create long-term stockholder value, these programs play a key role in creating value for the benefit of our stakeholders, including our stockholders, customers, employees and the communities where we operate.

Our compensation philosophy is guided by the following principles:

- Goal-oriented pay for performance. Individual annual cash and equity-based awards should be closely tied to the performance of the Company as a whole and reflect individual performance of each executive.
- Align compensation with stockholder interests. By providing a significant portion of each executive's direct compensation in the form of equity-based incentives and requiring direct ownership by executives of Company stock, the interests of senior management and the Company's stockholders are aligned.
- Competitive compensation. Executive pay programs play a significant role in attracting, motivating and retaining our executives and future leaders, and should be in line with the compensation opportunities provided to similar executive positions at peer companies.

"At Risk" Compensation. The Compensation Committee believes a compensation program weighted towards variable, at-risk compensation insures executive officers' goals are appropriately aligned with stockholders' interests. 2017 target total compensation for our CEO and other NEOs is heavily allocated towards variable compensation.

2017 CEO Compensation Mix(1) 2017 Other NEOs Compensation Mix(1)(2)

(1) Includes:

(i) 2017 base salaries, as discussed on page 28;

(ii) Target annual incentive cash award amounts under the Company's 2017 Short-Term Cash-Based Incentive Plan, as discussed on page 29; and

(iii) Target grant date fair value of 2017 time-based restricted stock and performance-based restricted stock units, as discussed on page 34.

(2) Excludes:

(i) Mr. Werner's compensation as Mr. Werner's employment terminated effective March 10, 2017.

(ii) 2016 LTI awards made to Messrs. Barta, George and Saligram pursuant to the terms of their 2016 employment offer letters in connection with their employment, were not approved and issued until 2017 as a result of the Company's Restatement.

The amounts actually realized by our NEOs with respect to the annual cash-based incentive awards and long-term equity-based incentive awards granted in 2017 depend, as applicable, on the level of attainment of the Company's performance goals, individual performance and the value of our common stock when the shares vest. As a result, the actual amounts realizable at a given point in time often differ from the total target direct compensation and from the amounts reported in the "2017 Summary Compensation Table."

What We Pay and Why

How We Determine Executive Compensation

Our Compensation Committee is responsible for establishing and overseeing compensation programs for our NEOs that are consistent with our compensation philosophy. In carrying out this role, our Compensation Committee considers the factors below:

- the Company's overall results as well as each executive's impact on Company performance;
- each executive's relative scope of responsibility;
- each executive's individual performance, demonstrated leadership and potential;
- current and past total compensation, including a review of base salary, short-term incentive pay and the value of long-term incentive awards ("LTI Awards") received;
- peer group data, and information and analysis provided by the Compensation Committee's independent compensation consultant, as further detailed below;
- internal pay equity considerations;
- stockholder value creation; and
- any other factors that the Compensation Committee deems relevant.

No specific formula is used to determine the weight of any factor; rather, compensation is established based on the Compensation Committee's assessment of all relevant information. Using these factors, all elements of compensation, including base salaries and target percentages for short-term and long-term incentive compensation, are reviewed annually by the Compensation Committee.

Role of Management. Our CEO recommends to the Compensation Committee salary adjustments, targets for annual cash incentives and LTI Awards for our executive officers other than himself. The Compensation Committee considers these factors as well as our CEO's subjective analysis of the executive's performance. The Compensation Committee makes the final determinations regarding executive compensation in light of the CEO's recommendations and the Committee's assessment on the factors described above. Compensation decisions for our CEO are made by our Compensation Committee.

The most significant aspects of the CEO's role in the compensation-setting process for 2017 were:

- recommending executive officers' compensation programs, policies, incentive opportunities and compensation levels that are consistent with our business strategy;
- recommending corporate performance goals on which executives' performance-based compensation will be based;
- assisting in the evaluation of, or evaluating, executive performance; and
- providing relevant materials and information for Compensation Committee review and consideration.

Role of Independent Consultant. Since November 2015, the Compensation Committee has engaged Semler Brossy Consulting Group, LLC ("Semler Brossy"), as its independent executive compensation consultant to provide information and advise the Committee and management on matters relating to executive compensation and to assist them in developing and implementing our executive compensation programs. In 2017, Semler Brossy provided the following services:

- analysis and recommendations regarding the Company's 2017 peer group, as described below;
- review and assistance in establishing executive officer compensation packages as requested by the Compensation Committee;
- provision of information related to trends, new rules and regulations that may impact executive and director compensation practices and administration; and
- input and advice regarding incentive compensation plan design for 2017 and 2018.

The Compensation Committee reviewed the independence of Semler Brossy, employing the independence factors specified in the corporate governance standards of the NYSE. Based on this assessment, the Compensation Committee determined that Semler Brossy was independent from the Company's management and free from any relationships that could raise any conflicts of interest or similar concerns.

Peer Group Analysis. Semler Brossy provided the Compensation Committee with an analysis of potential peer companies most similar to Exterran based on financial metrics and business characteristics, including global footprint. Based upon a review of data provided by Semler Brossy, the Compensation Committee approved the following 2017 peer group:

Archrock, Inc.	Forum Technologies	RPC, Inc.
Colfax Corp.	ITT, Inc.	ShawCor Ltd.
Dril-Quip, Inc.	McDermott International	SPX Flow, Inc.
Enerflex Ltd.	Oceaneering International	Superior Energy Services
Flowserve Corporation	Oil States International	TETRA Technologies, Inc.

The Compensation Committee considers peer group data information and information provided by the Committee's independent compensation consultant, in addition to published and private compensation survey data, in annually determining executive compensation.

Executive Compensation Elements

The following table summarizes the elements of compensation granted or paid to our NEOs under our 2017 compensation program. The program includes a mix of fixed and variable compensation elements to provide alignment with both Company short- and long-term business goals and the Company's stockholders. The Compensation Committee establishes the performance measures and performance ranges for the variable compensation elements. Individual compensation is based primarily on market-based compensation, Company performance and individual performance.

Characteristic	Component	Why We Pay	How We Determine	2017 Decisions
Fixed	Base Salary payable in cash	Provides a competitive level of fixed compensation during the fiscal year and provides sufficient fixed cash income for retention and recruiting purposes	Competitive data from the peer group, data from salary surveys, internal pay equity, market knowledge from the Committee's independent compensation consultant and individual performance	No NEOs received adjustments to their base salary for 2017
At Risk	Short-term cash-based incentive awards	Intended to motivate and reward executive officers for achieving financial and strategic execution goals over the short-term	Targets determined using competitive data from the peer group, salary surveys, market knowledge of the Committee's independent compensation consultant and individual performance Payouts based on Company and individual performance for the year; Compensation Committee retains discretion in determining the actual payout	Mr. Way's annual short-term incentive target was increased to 115% from 100%; other NEOs' targets were unchanged Strong, operational and financial performance and a review of individual performance resulted in payouts exceeding targets
	Long-term equity-based incentive awards (time-based restricted stock and/or performance-based restricted stock units)	Intended to reward long-term value creation, motivate and retain top talent and align executives' interests with our stockholders	Award amounts are based upon competitive data, total overall compensation, internal pay equity, historic grants and information provided by the Committee's independent compensation consultant and individual performance Time-based restricted stock awards have a three-year continued service requirement that provides a retention incentive Performance-based restricted stock units are dependent upon both Company and individual performance and have a continued service requirement that provides a retention incentive	Mr. Way's long-term incentive target was increased from $3.3 million to $3.7 million; other NEOs' targets were unchanged. Payout for performance-based awards are consistent with above, up to the maximum specified in the performance-based awards

Fixed Compensation

Base Salary. The Compensation Committee determines the base salaries for our NEOs based upon compensation competitive data, performance considerations and advice from our independent compensation consultant. The Committee also considers internal pay equity, but has not established a predetermined formula for this purpose.

The following table contains the 2016 and 2017 annualized base salaries of our NEOs. There were no changes in 2017.

Executive Officer	2016 Base Salary	2017 Base Salary
Andrew J. Way	$750,000	$750,000
David A. Barta	$435,000	$435,000
Girish K. Saligram	$500,000	$500,000
Roger George	$400,000	$400,000
Christopher T. Werner(1)	$300,000	$300,000

(1) Mr. Werner’s employment terminated effective March 10, 2017.

Variable Compensation

Short-Term Cash-Based Incentive Plan. For 2017, our NEOs were eligible to earn annual incentive awards under the Company’s Short-Term Cash-Based Incentive Plan, based upon the level of achievement across a set of performance measures and the NEO’s individual performance in 2017, as described below.

2017 Target Amounts. We believe performance-based incentives are aligned with our stockholders and encourage our management team to pursue objectives consistent with the overall goals and strategic direction the Board has approved for the Company. The Compensation Committee reviews individual short-term cash-based incentive targets annually using competitive data from the peer group, salary surveys and our independent compensation consultant’s insights into the marketplace. When Mr. Way joined the Company in 2015, his compensation was set based on competitive market data and was not increased in 2016. In 2017, Mr. Way’s annual short-term cash-based incentive target was increased to align it with target opportunities for other chief executive officers based upon peer group and competitive survey data, and to reflect the Compensation Committee’s goal in aligning executive compensation with stockholder’s interests. All other NEOs were employed by the Company in late 2016 or in 2017. NEOs may earn an individual short-term cash-based incentive payout ranging from 0% to 200% of their individual target opportunity.

Executive Officer	2016 Cash Incentive Target (% of base salary)	2017 Cash Incentive Target (% of base salary)	2017 Cash Incentive Target ($)(3)
Andrew J. Way	100	115	862,500
David A. Barta	75	75	326,250
Girish K. Saligram	70	70	350,000
Roger George(1)	N/A	70	280,000
Christopher T. Werner(2)	60	N/A	N/A

(1) Mr. George joined the Company effective December 15, 2016.
(2) Mr. Werner’s employment terminated effective March 10, 2017.
(3) Cash incentive target opportunities are not prorated.

2017 Company Performance Measures. As discussed above in "How We Determine Executive Compensation," the Compensation Committee sets performance measures and associated targets for our NEOs. These performance measures, established in March 2017, include the following Company financial, operational and safety goals:

Performance Measures	Weighting	What it is	Why we use it
FINANCIAL PERFORMANCE		Operational measure consistently evaluated each year	Strong correlation to stock price performance and mirrors the Company's financial disclosure
EBITDA, as Adjusted(1)	30%	Earnings before interest, taxes, depreciation and amortization, excluding Belleli EPC and other items	A critical measure by which our stockholders measure our performance
OPERATIONAL GOALS		Operational near-term measures aligned to the current operating environment	Aligns with the near-term business plan and annual initiatives; encourages growth in strategic areas of the business
Working Capital as a Percent of Sales	20%	Working capital divided by revenue (measured quarterly and averaged for the full performance period)	Encourages an efficient use of our cash in the operation and promotes strong focus on the controllable elements of our balance sheet
Growth (Margin Dollars)	30%	Sum of margin dollars from Contract Operations bookings for 2018 and beyond, 2017 aftermarket services revenue, and 2017 product line bookings (with certain limited exceptions)	Balances the focus on backlog and revenue growth while improving gross margin
SAFETY GOALS		Combination of operational and strategic measures that reflect the effectiveness of our global tools, processes and infrastructure and improvements made	Encourages a balance of near-term and mid-term decision making to benefit the health and safety of our employees and contractors and the protection of the environment
HSSE - Operational Performance	10%	Matrix of the number of incident free days and the severity in days away from work due to work-related incidents across the global organization	Encourages a focus on people, safety and the environment
HSSE - Global Processes	10%	Investment in new and improved global tools and processes that strengthen the Company's foundation and enable future growth	Encourages establishment or improvements in tools and processes to enable accelerated organic or acquisition-based growth

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(1) EBITDA, as adjusted is defined as net income (loss) excluding income (loss) from discontinued operations (net of tax), cumulative effect of accounting changes (net of tax), income taxes, interest expense (including debt extinguishment costs), depreciation and amortization expense, impairment charges, restructuring and other charges, non-cash gains or losses from foreign currency exchange rate changes recorded on intercompany obligations, expensed acquisition costs and other items; provided, however, that adjustments to EBITDA, as adjusted, may be made by the Compensation Committee, in its discretion, for acquisitions or dispositions and unusual items or non-recurring items. EBITDA, as adjusted, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 is a non-GAAP financial measure, which is discussed further in "Appendix A."

2017 Short-Term Cash-Based Incentive Plan Goal Determination. Generally, the target goals for financial and operational performance measures are based upon the Company's approved business plan and budget for the year and

generally reflect significant performance improvements relative to the prior year outcomes. Thresholds for operational goals are intended to reflect the minimum level of performance at which the Compensation Committee believes payout is warranted. Maximum goals are intended to provide stretch goals that challenge management to achieve exceptional performance. The Committee also reviews the effects on the annual incentive plan due to various risks and opportunities that are recognized at the time the plan is set to assure the plan targets that are determined reflect the appropriate balance of risks and opportunities. The Committee further confirms the targets it approves are aligned with the external expectations set and communicated to our stockholders. During each Compensation Committee meeting, the Committee reviews the Company's performance against the established Company performance measures.

The Compensation Committee reviewed and considered 2017 Company performance under the criteria set in early 2017. The Committee determined that overall Company performance for the purposes of establishing the 2017 short-term cash-based incentive pool was above target due to the Company's above-target financial and operational performance. The Committee considered 2017 Company performance in light of extraordinary unplanned events such as Hurricane Harvey and did not exercise its discretion to exclude the effects of these events on financial performance in determining calendar 2017 performance. The Company's 2017 performance goals and outcomes are as follows:

	2017 Short-Term Incentive Plan Performance Goals			2017 Actual	2017 Actual Performance %
Performance Measure	Threshold (0.5x)	Target (1.0x)	Maximum (1.50x)	—	—
EBITDA, as Adjusted (in millions)	$155	$165	$175	$175.5(1)	150%
Working Capital as a Percent of Sales	26.6%	23.9%	21.2%	14.9%	150%
Growth (Margin Dollars)(in millions)	$320	$360	$400	$409	150%
HSSE - Operational Results(2)	74	70	68	57.5	150%
HSSE - Global Process Results(3)	22	33	44	33	100%
Total Company	—	—	—	—	145%

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(1) The performance measure of EBITDA, as adjusted, excludes $2.4 million of costs associated with our ongoing operations at our repurposed Belleli EPC facility.

(2) Results are calculated in a matrix that considers severity of work-related incidents and the number of incident free days across global organization.

(3) Number of new or improved global processes.

Individual Performance. The Compensation Committee may increase or decrease the final short-term incentive award payment an NEO would otherwise be entitled to receive based upon the Committee's assessment of the NEO's impact during the year, performance in his primary area of responsibility, and leadership as an executive team member. For 2017, the Compensation Committee made the following assessments with respect to each NEO's individual performance:

Name	Individual Performance
Andrew J. Way	Mr. Way continued his strong and proactive leadership across the organization. His leadership is a driving force behind the Company's enhanced competitive position, development of the strategic growth playbook, and the solid execution against the annual business plan targets resulting in top quartile total stockholder return.
David A. Barta	Mr. Barta was instrumental in leading remediation efforts, in the successful recapitalization efforts in mid-2017, and in the recruitment and retention of a world-class functional leadership team.
Girish K. Saligram	Mr. Saligram's leadership in growing key markets, developing our strategic growth playbook, improving our execution capability and adding outstanding talent to the organization are key to our present and future success.
Roger George	Mr. George's leadership with respect to the improvements in product sales gross margins, development of the Company's strategic growth playbook, and certain strategic engineering and product line advancements are instrumental to our success in 2018 and beyond.
Christopher T. Werner	Mr. Werner's performance was not assessed for 2017, as his employment terminated in March 2017.

2017 Short-Term Cash-Based Incentive Award Payout Determinations. Based on the information above, the Compensation Committee approved the following 2017 Short-Term Cash-Based Incentive Plan payout amounts for the NEOs:

Name	Target ($)	x	Company Performance	+ / –	Individual Performance	=	Actual 2017 Incentive Payout
Andrew J. Way	$862,500	x	145%	+	$149,375	=	$1,400,000
David A. Barta	$326,250	x		+	$29,937	=	$503,000
Girish K. Saligram	$350,000	x		+	$146,000	=	$653,500
Roger George	$280,000	x		+	$77,000	=	$483,000

As noted above, Mr. Werner did not receive a 2017 incentive award as his employment terminated in March 2017.

Long-Term Equity-Based Incentive Compensation Plan. The Compensation Committee believes that awarding a meaningful portion of our NEOs' total compensation in the form of time-based and performance-based equity awards emphasizes long-term financial and operational performance, aligns executives' interests with our stockholders' interests by increasing their ownership of Company common stock, and helps to retain key executives. In 2017, long-term equity-based incentive awards in the form of restricted stock and performance-based restricted stock units were granted pursuant to the Company's 2015 Stock Incentive Plan (the "2015 Plan"). Under the 2015 Plan, the Compensation Committee has the ability to grant stock options, restricted stock and restricted stock unit awards, stock appreciation rights and performance-based units to employees (including our NEOs), consultants of our Company and its affiliates, and to our directors.

The ratio of time-based to performance-based long-term incentives awarded each year is generally consistent with historic grant practices and consistent with the executives in similar roles in our peer group. Equity awards generally vest ratably over three years from the date of grant and are subject to continued service through the vesting date. Equity-based incentive awards may vary from executives' targets as a result of individual performance, promotions and internal pay equity.

The following reflects the ratio of time-based to performance-based equity awards for our NEOs:

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(1) Excludes Mr. Werner, who did not receive an annual equity grant in 2017.

(2) 2016 LTI awards made to Messrs. Barta, George and Saligram pursuant to the terms of their 2016 employment offer letters in connection with their employment, which awards were not approved and issued until 2017 as a result of the Company's Restatement.

The Compensation Committee generally considers estimated targets for total compensation, the relative value of each compensation element, the expense of such awards and the impact on dilution, when determining the amount of long-term, equity-based incentive awards to be granted each year to our NEOs. For 2017, the Compensation Committee evaluated information provided by Semler Brossy regarding Company peer group grant values, private and public surveys, and market information for executives in comparable roles. The Compensation Committee also evaluated the CEO's recommendations regarding long-term, equity-based incentive awards to be granted to the other NEOs. Based upon these evaluations, the Compensation Committee approved the following long-term, time-based and performance-based units for 2017:

Executive Officer	2017 Restricted Stock Awards Total ($)	2017 Performance Based Restricted Stock Units Total ($)	2017 Long-Term Awards Total ($)
Andrew J. Way(1)	$1,650,000	$2,050,000	$3,700,000
David A. Barta(1)	$400,000	$400,000	$800,000
Girish K. Saligram(1)	$400,000	$400,000	$800,000
Roger George(1)	$300,000	$300,000	$600,000
Christopher T. Werner(2)	—	—	—

(1) Does not include time-based restricted stock granted to Messrs. Barta, George and Saligram pursuant to the terms of their 2016 employment offer letters, which grants were not approved and issued in 2016 as a result of the Company's Restatement. 2016 LTI awards are included in the "2017 Summary Compensation Table" and "Grants of Plan-Based Awards" tables in this proxy statement.

(2) Mr. Werner did not receive an annual equity award in 2017.

Time-Based Restricted Stock. The time-based equity awards granted in March 2017 vest in three substantially equal installments on the anniversary of the grant date, subject to continuous employment. Additional information regarding these awards, including treatment under certain terminations of employment or the occurrence of a change of control is provided below in "Potential Payments Upon Termination or Change of Control."

Performance-Based Units. The performance-based units granted in March 2017 are subject to continuous service, the achievement of performance measures, and the NEOs' individual performance. In 2017, the measures were EBITDA, as adjusted, working capital as a percent of sales, and growth margin dollars over a one-year measurement period. The Compensation Committee believed that due to the Company's recent formation in late 2015, together with the volatility and uncertainty in the global commodity markets experienced in 2016, it was appropriate to use a one-year performance period in 2017 with vesting over a longer three-year period. The structure of the 2017 performance-based units awarded is substantially similar to prior year awards, except for the consideration of individual performance in addition to Company performance.

Payout of 2017 Performance-Based Awards. The performance measures for the performance-based units, as well as 2017 results for each measures, are below. The NEOs may earn an individual payout ranging from 0% to 150% of their target opportunity.

Performance Measures	Weight	Threshold(1)	Target	Maximum	2017 Actual	2017 Actual Performance %
Payout Factor	—	50%	100%	150%	—	—
EBITDA, as adjusted (in millions)	15%	$155	$165	$175	175.5(2)	150%
Working Capital as a Percent of Sales	25%	26.6%	23.9%	21.2%	14.9%	150%
Growth (Margin Dollars)(in millions)	60%	$320	$360	$400	$409	150%
Total Company Performance	—	—	—	—	—	150%

(1) Performance below threshold will result in 0% funding of the applicable performance measure.

(2) The performance measure of EBITDA, as adjusted, excludes $2.4 million of costs associated with our ongoing operations at our repurposed Belleli EPC facility.

The plan earned 150% and NEO performance-based units were not reduced for individual performance. Our NEO's performance-based units payouts in 2017 were each 150% of target.

Timing of Awards. Annual grants of equity awards are typically determined in Compensation Committee meetings held during the first quarter of each year. At that time, data for previous performance periods is available to determine the amount of the final awards. The Committee also decides the annual equity-based grants of time-based restricted stock and performance-based units. In order to allow sufficient time for preparation of notification materials, the Committee approved the annual 2017 equity-based grants on March 3, 2017 using the closing price of the Company's common stock on the NYSE on such date. A similar practice was followed in previous years. This timing allows for the grants to be made after the release of earnings information for the prior fiscal year.
The Committee does not time equity grants to affect the value of compensation either positively or negatively. Executive officers do not play a role in the selection of grant dates. Special grants for officers are approved by the Compensation Committee and are effective on a specified future date (e.g., the date that coincides with a promotion or hiring date), or the date of approval. In the case of an approval by written consent, the grant date cannot be earlier than the date when all Committee members' approvals have been obtained.

Other Compensation And Benefit Arrangements

In addition to the elements of total direct compensation described above, our executive compensation program includes other compensation and benefits that are designed primarily to attract, motivate and retain executives critical to our long-term success and to provide an overall competitive compensation structure.

Element	Description and Purpose
Change of Control Severance and Non-Change of Control Severance	Our Change of Control Severance Benefit Agreements and Non-Change of Control Severance Benefit Agreements with certain senior executives are intended to provide financial security and an industry-competitive compensation package for executives. This additional security helps ensure our senior executives remain focused on our performance and the continued creation of stockholder value throughout any change of control transaction rather than on the potential uncertainties associated with their own employment. Our Change of Control Severance Agreements and Non-Change of Control Severance Agreements are "double trigger" agreements that generally provide certain cash payments and some accelerated vesting on stock granted to the executive only if their employment is terminated during or following a change of control, or in the case of a non-change of control, a termination of employment. A description of our agreements in effect during 2017 is provided in the "Executive Compensation Tables - Potential Payments upon a Change of Control or Termination."
401(k) Plan	All U.S. employees of the Company are eligible to participate in and receive up to a 3.5% Company matching contribution in our 401(k) Plan, up to the limits established by the Internal Revenue Service, which is intended to provide financial security upon retirement.
Non-Qualified Deferred Compensation Plan	All U.S. executives are eligible to be designated as participants in our Non-Qualified Deferred Compensation Plan, which is intended to provide competitive retirement planning benefits to attract and retain skilled management. The Non-Qualified Deferred Compensation Plan allows an eligible participant to defer up to 100% of his or her salary and bonus on an annual basis.
Health and Wellness Plans	NEOs are eligible to receive available health and other wellness benefits, including medical, dental, vision, life and disability insurance, on the same basis as our other U.S. employees. Our health and wellness plans are intended to provide a competitive, broad-based employee benefits structure and to promote the wellness of our executives and other employees.
Perquisites	We do not provide perquisites to our NEOs.

2018 Compensation Decisions

In February 2018, the Compensation Committee approved 2018 compensation for our NEOs. Salaries of Mr. Way, Mr. Barta and Mr. George increased slightly from 2017 levels. Mr. George's and Mr. Saligram's individual target levels under the Company's 2018 Short-Term and Long-Term Incentive Plans are slightly increased from 2017 target levels. Mr. Way's and Mr. Barta's individual target levels under the Company's 2018 Long-Term Incentive Plan are also slightly increased from 2017 target levels. Long-term equity award value in 2018 will continue to be 50% performance-based for all of our NEOs other than Mr. Way, whose long-term incentive award will be 60% performance-based. The Compensation Committee changed the structure of the Company's long-term incentive plans, so that beginning in 2018, the performance period for performance-based units will be measured over a two-year (rather than one-year), time frame. The 2018 incentive programs include a balance of Financial, Operational, HSSE and Strategic performance measures. In addition to Company performance, final awards or payouts will include consideration for each executive's individual performance.

Compensation Policies and Practices

Stock Ownership Guidelines

The Compensation Committee believes that meaningful stock ownership by our senior executives is important in aligning management's interest with the interests of our stockholders. Our executives are required to maintain consistent stock ownership in the Company based upon a multiple of the executive's base salary as described below.

Position	Ownership Requirement
President and Chief Executive Officer	6 times base salary
Named Executive Officers	3 times base salary

Executives have up to five years to meet the stock ownership guidelines. As of year-end 2017, all NEOs have met or, if newly hired, are on track to meet their respective stock ownership requirements.

Trading Controls and Anti-Pledging and Anti-Hedging Policies

We prohibit NEOs from buying, selling, or writing puts, calls or other options related to Company stock. None of our NEOs has entered into hedging transactions involving our stock. We also prohibit executives from holding Company stock in a margin account or pledging Company stock as collateral for a loan.

Compensation Policies and Practices Related to Risk Management

The Compensation Committee has discussed and analyzed the concept of risk as it relates to our compensation programs for all of our employees, including our NEOs, and believes that our compensation programs do not encourage excessive and unnecessary risk taking.

Compensation Committee Interlocks and Insider Participation

Messrs. Ryan (Chair), Goodyear, Gouin, Seaver and Stewart, all of whom are independent non-management directors, currently serve on the Compensation Committee. None of these individuals is or has been an officer of the Company, was an employee of the Company during the last fiscal year or as of the date of this Proxy Statement, or is serving or has served as a member of the Compensation Committee of another entity that has an executive officer serving on the Compensation Committee of the Company. No executive officer of the Company serves as a director or on the Compensation Committee of another entity whose executive officer(s) serves as a director or on the Compensation Committee of the Company.

Executive Offer Letters

We provide offer letters to each of our NEOs. Each letter provides the initial annual base salary and initial short-term and long-term incentive targets that the NEO is eligible to receive. The base salary and incentive targets are subject to annual review, with future salary levels and incentive target levels subject to the discretion of the Compensation Committee. In addition, offer letters may include provisions for one-time compensation actions related to the initial employment of the executive. All letters provide that the applicable executive is eligible to participate in all employee benefit plans maintained by the Company for the benefit of its employees generally. All offer letters also provide that employment with the Company is "at-will" and not for any specified time, and may be terminated with or without cause at any time by the executive or the Company.

Tax and Accounting Considerations

Section 162(m) of the Code. Section 162(m) of the Code generally limited the deductibility of certain compensation expenses in excess of $1,000,000 paid to any one executive officer within a fiscal year unless it was “performance-based” compensation. For compensation to be “performance-based,” it was required to meet certain criteria, including performance goals approved by our stockholders and, in certain cases, objective targets based on performance goals approved by stockholders. However, the Tax Cuts and Jobs Act substantially modified the Code and, among other things, eliminated the performance-based compensation exception under Section 162(m) unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017. We believe that maintaining the discretion to evaluate the performance of its NEOs through the use of performance-based compensation is an important part of our responsibilities and benefits our stockholders, even if it may be non-deductible under Section 162(m) of the Code.

Section 280G of the Code. Section 280G of the Code disallows a tax deduction for excess parachute payments to certain executives of companies that undergo a change of control. In addition, Section 4999 of the Code imposes a 20% excise tax on the individual with respect to the excess parachute payment. Parachute payments are compensation linked to or triggered by a change of control and may include, but are not limited to, bonus payments, severance payments, certain fringe benefits, and payments and acceleration of vesting from long-term incentive plans including stock options and other equity-based compensation. Excess parachute payments are parachute payments that exceed a threshold determined under Section 280G of the Code based on the executive’s prior compensation. It is our policy not to provide any executives with a gross-up payment to make up for these taxes, if any.

Section 409A of the Code. Section 409A of the Code requires that “nonqualified deferred compensation” be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and directors to accelerated income tax liabilities, substantial additional taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, it is our intention to design and administer our respective compensation and benefit plans and arrangements for all of our employees and directors, including our NEOs, so that they are either exempt from, or satisfy the requirements, of Section 409A of the Code.

Accounting for Stock-Based Compensation. We have followed ASC 718 to account for stock-based compensation awards. ASC 718 requires companies to calculate the grant date “fair value” of their stock-based awards using a variety of assumptions. ASC 718 also requires companies to recognize the compensation cost of their stock-based awards in their income statements over the period that an employee is required to render service in exchange for the award. We expect that we will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs. As accounting standards change, we may revise certain programs to appropriately align accounting expenses of our equity awards with our overall executive compensation philosophy and objectives.

Executive Compensation Tables

2017 Summary Compensation Table

The following table sets forth information with respect to the compensation of our CEO, our Chief Financial Officer and our three other most highly-compensated executive officers, collectively the NEOs, for the years ended December 31, 2017, 2016 and 2015.

Name	Position	Year	Base Salary	Bonus	Stock Awards(1)	Non-Equity Incentive Plan(2)	All Other Compensation (3)	Total
Andrew J. Way	President and Chief Executive Officer	2017	750,000	—	3,700,000	1,400,000	9,950	5,859,950
		2016	750,000	—	3,300,000	—	9,775	4,059,775
		2015	369,231	2,000,000	3,999,996	750,000	9,087	7,128,314
David A. Barta	Senior Vice President and Chief Financial Officer	2017	435,000	—	2,156,700	503,000	9,950	3,104,650
		2016	58,557	350,000	—	—	250	408,807
Girish K. Saligram	Senior Vice President, Global Services	2017	500,000	—	2,895,784	653,500	4,673	4,053,957
		2016	173,077	2,275,962	—	—	731	2,449,770
Roger George(4)	Senior Vice President, Engineering and Product Lines	2017	400,000	600,000	949,031	483,000	27,434	2,459,465
		2016	10,769	150,000	—	—	250	161,019
Christopher T. Werner(5)	Former Senior Vice President, Global Operations	2017	75,000	—	—	—	961,408	1,036,408
		2016	300,000	75,000	400,000	—	11,398	786,398
		2015	298,751	75,000	399,987	91,500	19,310	884,548

(1) The amounts in this column represent the grant date fair value of (a) restricted shares of Exterran's common stock (which are set forth in the table below) and (b) 2017 performance-based units awarded at target. The grant date fair values of the 2017 performance-based units at maximum level were as follows: Mr. Way: $3,075,000; Mr. Barta: $600,000; Mr. Saligram: $600,000; and Mr. George: $450,000. In addition, in connection with their employment in 2016, Messrs. Barta, George and Saligram were entitled to receive equity awards subject to Committee approval. These awards were not approved and issued until 2017 as a result of the Restatement and are included in this column. The grant date fair value of all awards shown above was calculated in accordance with ASC 718. For further discussion on the fair value of our awards, see Note 19 to the consolidated and combined financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(2) Our short-term incentive plan program was suspended in 2016. In February 2017, participation by Mr. Way and the other NEOs in the 2017 short-term incentive plan program was reinstated.

(3) The amounts in this column for 2017 include the following:

Name	401(k) Plan Company Contribution (a)	Tax Preparation and Planning Services	DERs / Dividends	Other (b)	Total Other Compensation
Andrew J. Way	9,450	—	—	500	9,950
David A. Barta	9,450	—	—	500	9,950
Girish K. Saligram	4,173	—	—	500	4,673
Roger George	9,450	—	—	17,984	27,434
Christopher T. Werner	2,625	—	—	958,783	961,408

(a) The amounts shown represent matching Company contributions for 2017.

(b) Represents contributions made to employee health savings accounts, and in the case of Mr. Werner, also represents severance payments paid pursuant to Mr. Werner's Severance Benefit Agreement and in the case of Mr. George, also represents amounts associated with his relocation. See "Potential Payments Upon Termination or Change of Control -

Non-Change of Control Severance Benefit Agreements."

(4) Under the terms of Mr. George's offer letter, he received a one-time cash payment of $600,000 in connection with his commencement of employment and subject to continued service.

(5) Mr. Werner's employment terminated effective March 10, 2017.

2017 Grants of Plan-Based Awards

The following table contains information about grants of plan-based awards to our NEOs during 2017:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Possible Payouts Under Equity Incentive Plan Awards(2)			All other Stock Awards: Number of Shares of Stock or Units (#)(3)	All other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/SH)	Grant Date Fair Value of Stock and Option Awards ($)(4)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Andrew J. Way	3/4/2017	—	862,500	1,725,000	—	66,408	99,612	—	—	—	2,050,000
	3/4/2017	—	—	—	—	—	—	53,450	—	—	1,650,000
David A. Barta(5)	1/6/2017	—	—	—	—	—	—	49,245	—	—	1,356,700
	3/4/2017	—	326,250	652,500	—	12,958	19,437	—	—	—	400,000
	3/4/2017	—	—	—	—	—	—	12,958	—	—	400,000
Girish K. Saligram(5)	1/6/2017	—	—	—	—	—	—	76,072	—	—	2,095,784
	3/4/2017	—	350,000	700,000	—	12,958	19,437	—	—	—	400,000
	3/4/2017	—	—	—	—	—	—	12,958	—	—	400,000
Roger George(5)	1/6/2017	—	—	—	—	—	—	12,669	—	—	349,031
	3/4/2017	—	280,000	560,000	—	9,719	14,579	—	—	—	300,000
	3/4/2017	—	—	—	—	—	—	9,719	—	—	300,000
Christopher T. Werner(6)		—	—	—	—	—	—	—	—	—	—

(1) The amounts in these columns show the range of potential payouts of incentives under the 2017 Short-Term Incentive Plan. Although the Short-Term Incentive Plan sets measures for threshold, target and maximum pool funding levels at 0% to 150%, actual awards to NEOs can range from 0% to 200% of their personal or individual target due to adjustments made for individual performance. "Threshold" is the lowest possible individual payout (0% of target) and "Maximum" is the highest possible individual payout (200% of target). See ”Short-Term Cash-Based Incentive Plan” for a description of the 2017 short-term incentive awards.

(2) The amounts in these columns show the range of potential payouts of 2017 performance-based units awarded under the 2017 Long-Term Incentive Plan. The Long-Term Incentive Plan sets measures for threshold, target and maximum pool funding levels at 0% to 150%, actual awards to NEOs can range from 0% to 150% of their individual target due to adjustments made for individual performance. “Threshold” is the lowest possible payout (0% of the grant) and “Maximum” is the highest possible individual payout (150% of the grant). See “Long-Term Incentive Compensation-2017 Performance-Based Awards” for a description of the 2017 performance-based awards.

(3) Shares of restricted stock awarded under our 2015 Plan vest one-third per year over a three-year period, subject to continued service through each vesting date.

(4) The grant date fair value of performance-based units and restricted stock is calculated in accordance with ASC 718. For a discussion of valuation assumptions, see Note 19 to the consolidated and combined financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017. The 2017 performance-based units are shown at target value.

(5) In connection with their employment in 2016, Messrs. Barta, George and Saligram were entitled to receive equity awards subject to Committee approval. These awards were not approved and issued until 2017 as a result of the Restatement.

(6) Mr. Werner did not participate in the 2017 Short-Term or Long-Term Incentive Plan.

Outstanding Equity Awards at Fiscal Year-End

The following table contains information about our NEOs' outstanding equity awards at December 31, 2017. See also "Potential Payments upon Termination or Change of Control" beginning on page 42 regarding the treatment of these awards upon certain terminations of employment or the occurrence of a change of control.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Yet Vested (#)(5)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Yet Vested ($)(4)
Andrew J. Way	—	—	—	—	307,406	9,664,845	66,408	2,087,868
David A. Barta	—	—	—	—	45,788	1,439,575	12,958	407,400
Girish K. Saligram	—	—	—	—	63,672	2,001,848	12,958	407,400
Roger George	—	—	—	—	18,165	571,108	9,719	305,565
Christopher T. Werner(3)	—	—	—	—	—	—	—	—

(1) Messrs. Way, Barta, Saligram, and George have not been granted stock options.

(2) Includes the following shares of restricted stock and performance-based units awarded under our 2015 Plan:

Name	Unvested Share/Units	Initial Vesting Date	Vesting Increments
Andrew J. Way	86,749	11/03/2016	One-third over 3 years
	167,207	03/04/2017	One-third over 3 years
	53,450	03/04/2018	One-third over 3 years
David A. Barta	32,830	11/7/2017(a)	One-third over 3 years
	12,958	03/04/2018	One-third over 3 years
Girish K. Saligram	50,714	8/22/2017(a)	One-third over 3 years
	12,958	03/04/2018	One-third over 3 years
Roger George	8,446	12/15/2017(a)	One-third over 3 years
	9,719	03/04/2018	One-third over 3 years

(a) Represents 2016 new-hire awards not granted until 2017 due to the Restatement, the vesting schedules of which are based upon initial employment dates.

(3) Mr. Werner's employment terminated effective March 10, 2017.

(4) Based on the market closing price of our common stock on December 29, 2017, of $31.44 per share.

(5) Amounts shown are the unearned and unvested number of 2017 performance-based units at target. One-third of the performance-based units awarded in 2017 under our 2015 Plan vest one-third per year on each anniversary of the grant date.

Stock Vested in Fiscal Year 2017

The following table contains information regarding the vesting during 2017 of time-based and performance-based units previously granted to our NEOs:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(1)	Value Realized on Exercise ($)(2)	Number of Shares and Units Acquired on Vesting (#)(1)	Value Realized on Vesting ($)(2)(4)
Andrew J. Way	—	—	170,353	5,348,149
David A. Barta	—	—	16,415	512,476
Girish K. Saligram	—	—	25,358	645,108
Roger George	—	—	4,223	123,903
Christopher T. Werner(3)	5,418	84,087	31,790	938,479

(1) Includes restricted stock that vested, and stock options exercised by Mr. Werner during 2017.

(2) The value realized for vested awards was determined by multiplying the fair market value of the restricted stock (market closing price of Exterran's common stock on the vesting date) by the number of shares or awards that vested. Shares vested on various dates throughout the year; therefore, the value listed represents the aggregate value of all shares that vested for each NEO in 2017. The amounts in this column are calculated by multiplying the number of shares acquired on exercise by the difference between the fair market value of our Common Stock on the date of exercise and the exercise price of the stock options.

(3) Stock awards include March 4, 2017 vesting, and March 10, 2017 acceleration of equity vesting within the 12 months of separation date for Mr. Werner.

(4) The value realized on vesting includes the cash-settlement of 2016 performance-based units.

Non-Qualified Deferred Compensation Plan

The following table contains information about our NEOs' participation in our Non-Qualified Deferred Compensation Plan during 2017:

Name	Executive Contributions in Last Fiscal Year ($)(1)	Company Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings (Losses) in Last Fiscal Year($)	Aggregate Withdrawals/ Distributions ($)(3)	Aggregate Balance at Last Fiscal Year End($)
Andrew J. Way	—	—	—	—	—
David A. Barta	—	—	—	—	—
Girish K. Saligram	1,053,500	—	55,139	—	1,438,799
Roger George	483,000	—	—	—	483,000
Christopher T. Werner	—	—	732	10,255	—

(1)

All contribution amounts for the last fiscal year reported in this table are also included in the "Salary" and "Non-Equity Incentive Plan Compensation" amounts reported in the "2017 Summary Compensation Table."

(2) The Company suspended its contributions to the Deferred Compensation Plan beginning in 2017.

(3) Distribution was made 6 months following Mr. Werner's separation date due to 409A regulations.

The Non-Qualified Deferred Compensation Plan allows an eligible employee to defer up to 100% of his or her annual salary and annual short-term cash incentive. All U.S. key management and highly-compensated employees who are selected for participation by the Compensation Committee are eligible to participate in this plan, which is intended to provide competitive retirement planning benefits to attract and retain eligible employees. Effective October 30, 2015, we established an irrevocable rabbi trust to hold participant account balances under the Non-Qualified Deferred Compensation Plan. Participants may direct the investment of their account balances in hypothetical investment options made available under the Plan. Accordingly, earnings and losses on the account balances are based upon the market return on the hypothetical investment alternatives selected by the participant. Each participant may elect whether to receive deferred amounts after separation from service or, if earlier, on January 1 of a specified year selected by the participant. Certain officers, however, must generally wait until six months after separation from service for distributions to begin. Upon the applicable payment date, payments will be made in the form of a lump sum or in annual installments over two to ten years as elected by the participant at the time their deferral election was submitted. All payments are made in cash. If a participant dies, distribution is made in a lump sum to the participant's designated beneficiary or, if none, to the participant's estate. Distributions due to unforeseeable emergency, as determined by the committee that administers the plan, are permitted but other unscheduled withdrawals are not allowed. In certain circumstances, including a qualifying change in control, the Compensation Committee may terminate the plan and pay out all benefits in a lump sum in accordance with plan provisions and section 409A of the Internal Revenue Code. See "Potential Payments Upon Termination or Change of Control" below.

Potential Payments Upon Termination or Change of Control

This section describes the potential payments or benefits upon termination, change of control or other post-employment scenarios for each of our NEOs.

Change of Control Severance Agreements. None of our NEOs have employment contracts and all of our NEOs are employed at will. We have entered into change of control severance agreements with Mr. Way in November 2015, Mr. Saligram in August 2016, Mr. Barta in November 2016, and Mr. George in December 2016. The agreements have an initial term of two years with an automatic annual extension unless our Board takes action to cease the automatic extensions.

The agreements generally provide for a severance protection period that begins on the date of "change of control" of our Company and ends on the 18-month anniversary of that date. During the protected period, if the executive's employment is terminated by the Company without "cause" or by the executive for "good reason", the agreements provide for the following severance benefits:

- Two times (or, for Mr. Way, three times) his current annual base salary plus two times (or, for Mr. Way, three times) his target annual incentive bonus opportunity for that year plus (i) a pro-rated portion of his target annual incentive bonus opportunity for the termination year based on the length of time during which he was employed during such year and (ii) any earned but unpaid annual incentive award for the fiscal year ending prior to the termination date (the "CoC Cash Severance"); and

- Two times (for Mr. Way) the total of the Company contributions that would have been credited to him under the Exterran 401(k) Plan and any other deferred compensation plan had he made the required amount of elective deferrals or contributions during the 12 months immediately preceding the termination month.

In addition, the executive would be entitled to:

- Company-provided medical coverage for him and his eligible dependents for up to two years (for Mr. Way) or a cash payment equal to 18 months of employer premium payments (for Messrs. Saligram, Barta and George) following the termination date;

- The accelerated vesting of all his unvested stock options, restricted stock, restricted stock units or other stock-based awards based in Exterran common stock, and all cash-based incentive awards (collectively, the “CoC Accelerated Vesting”); and

- A Section 280G "best pay" provision pursuant to which in the event any payments or benefits received by the executive would be subject to an excise tax under Section 4999 of the Code, the executive will receive either the full amount of his payments or a reduced amount such that no portion of the payments is subject to the excise tax (whichever results in the greater after-tax benefit to the executive).

Each executive's entitlement to the payments and benefits under his change of control agreement is also subject to his execution of a waiver and release for Exterran's benefit. In addition, in the event an executive receives payments under his change of control agreement, such executive is subject to confidentiality, non-solicitation and non-competition restrictions for two years following a termination of his employment.

Non-Change of Control Severance Benefit Agreements. We entered into severance benefit agreements with Mr. Way in November 2015, Mr. Saligram in August 2016, Mr. Barta in November 2016, and Mr. George in December 2016. The terms and conditions of these severance benefit agreements are substantially similar. The agreements have an initial term of one year, with an automatic annual extension unless 365 days' (for Mr. Way) or 90 days' (for Messrs. Saligram, Barta and George) prior notice is given by either party.

Each severance benefit agreement provides that if the executive's employment is terminated by us without cause or by the executive with good reason at any time during the agreement term he would receive a lump sum payment in cash on the 60th day after the termination date equal to the sum of:

- His annual base salary then in effect;
- His target annual incentive bonus opportunity for the termination year;
- A pro-rated portion of his target annual incentive bonus opportunity for the termination year based on the length of time during which he was employed during such year; and
- Any earned but unpaid annual incentive award for the fiscal year ending prior to the termination date (collectively, the "Non-Change of Control Cash Severance").

In addition, the executive would be entitled to, as of the termination date:

- Accelerated vesting of all outstanding unvested equity, equity-based and cash-settled awards based in Exterran common stock that were scheduled to vest within 12 months following the termination date (the "Non-Change of Control Accelerated Vesting"). If the achievement of the performance period goals for unearned performance-based units has not yet been measured as of the separation date, the achievement of such goals will be measured following the conclusion of the performance period and paid in accordance with the applicable award agreement (for Mr. Way), or will be measured at target (for Messrs. Saligram, Barta and George); and
- Continued coverage under our medical benefit plans for him and his eligible dependents for up to one-year subject to executive's payment of the employee premium (for Mr. Way) or a cash payment equal to 18 months of employer premium payments (for Messrs. Saligram, Barta and George) following the termination date.

Each executive's entitlement to the payments and benefits under his severance benefit agreement is subject to his execution of a waiver and release for Exterran's benefit. In addition, Mr. Way's severance benefit agreement contains non-disparagement restrictions, and Messrs. Saligram, Barta and George's severance benefit agreements also contain confidentiality, non-competition and non-solicitation or hire provisions.

On March 10, 2017, we entered into a separation letter with Mr. Werner pursuant to which, in connection with his separation of employment, Mr. Werner received the payments and benefits set forth in his non-change of control severance benefit agreement, which consisted of: (i) a lump sum cash payment equal to the sum of (a) his annual base salary, (b) his target annual incentive bonus opportunity for 2017 and (c) his target annual incentive bonus opportunity for 2017, prorated based on the length of his employment during 2017; and (ii) the accelerated vesting of any then-outstanding equity, equity-based and cash awards held by Mr. Werner that were denominated in shares of our

common stock and would have otherwise vested during the twelve (12)-month period following his separation date. Pursuant to his severance benefit agreement and his separation letter, Mr. Werner is also subject to certain customary non-disparagement restrictions. See "Post-Employment Tables" below.

Other Qualified Plans. Upon termination of employment with the Company, our NEOs are entitled to payment of their account balances in our Non-Qualified Deferred Compensation Plan in the form previously selected by the member in their payment election, subject to Section 409A of the Code. See "Non-Qualified Deferred Compensation Plan" beginning on page 41.

Post-Employment Tables

The following tables describe potential payments or benefits upon termination, change of control or other post-employment scenarios for each of our NEOs. The following tables generally do not include amounts payable pursuant to plans that are available generally to all salaried employees. The amounts in the tables show only the value of amounts payable or benefits due to enhancements in connection with each scenario, and do not reflect amounts otherwise payable or benefits otherwise due as a result of employment. There would be no amounts payable or benefits due to enhancements solely in connection with (1) an involuntary termination for cause, (2) a voluntary termination not for cause or (3) a retirement. Accordingly, no amounts are shown for those scenarios. The actual amounts to be paid out in any scenario can only be determined at the time of such executive officer's actual separation from Exterran.

The following assumptions apply to the tables:

- For all scenarios, the trigger event is assumed to be December 31, 2017.
- "Cash Severance Payment" includes only the cash payment based on base salary and bonus, as described under "Change of Control Severance Agreements." All other amounts and adjustments mandated by the change of control severance agreements are shown in connection with the associated other benefits included in the tables.
- Vested restricted shares are not included in these tables since they are already vested.
- For all scenarios, the amounts for restricted shares that are unvested and accelerated are calculated by multiplying the number of unvested restricted shares by $31.44, which is the closing price of Exterran common stock on the NYSE on December 29, 2017.
- The amounts included below for health coverage are the estimated COBRA premiums of the existing medical benefits to each eligible executive for the applicable time period specified in the executive's change of control agreement.

Non-Qualified Deferred Compensation Plan amounts payable in connection with the various scenarios are not shown in the table below because these amounts are disclosed earlier in the "Non-Qualified Deferred Compensation Plan" table on page 41. In addition, no amounts are shown as payable under the 2017 Short-Term Incentive Plan because these amounts are disclosed earlier in the "Non-Equity Incentive Plan Compensation" column of the "2017 Summary Compensation Table."

Name		Voluntary Resignation ($)(10)	Retirement ($)(10)	Termination for Cause ($)(10)	Termination Due to Death or Disability ($)(1)	Termination Without Cause or Resignation with Good Reason ($)(2)(3)	Change of Control Without a Qualifying Termination ($)	Change of Control with a Qualifying Termination ($)(4)
Andrew J. Way	Cash Severance	—	—	—	—	2,475,000		5,700,000
	Stock Option(5)	—	—	—	—	—		—
	Restricted Stock(6)	—	—	—	9,664,845	5,916,033		9,664,845
	Performance-Based Awards(7)	—	—	—	2,087,868	695,956		2,087,868
	Other Benefits(8)	—	—	—	—	12,800		44,500
	Total Pre-Tax Benefit	—	—	—	11,752,713	9,099,789	NA	17,497,213

Name		Voluntary Resignation ($)(10)	Retirement ($)(10)	Termination for Cause ($)(10)	Termination Due to Death or Disability ($)(1)	Termination Without Cause or Resignation with Good Reason ($)(2)(3)	Change of Control Without a Qualifying Termination ($)	Change of Control with a Qualifying Termination ($)(4)
David A. Barta	Cash Severance	—	—	—	—	1,087,500		1,848,750
	Stock Option(5)	—	—	—	—	—		—
	Restricted Stock(6)	—	—	—	1,439,575	651,908		1,439,575
	Performance-Based Awards(7)	—	—	—	407,400	135,821		407,400
	Other Benefits(9)	—	—	—	—	14,021		14,021
	Total Pre-Tax Benefit	—	—	—	1,846,975	1,889,250	NA	3,709,746

Name		Voluntary Resignation ($)(10)	Retirement ($)(10)	Termination for Cause ($)(10)	Termination Due to Death or Disability ($)(1)	Termination Without Cause or Resignation with Good Reason ($)(2)(3)	Change of Control Without a Qualifying Termination ($)	Change of Control with a Qualifying Termination ($)(4)
Girish K. Saligram	Cash Severance	—	—	—	—	1,200,000		2,050,000
	Stock Option(5)	—	—	—	—	—		—
	Restricted Stock(6)	—	—	—	2,001,848	933,045		2,001,848
	Performance-Based Awards(7)	—	—	—	407,400	135,821		407,400
	Other Benefits(9)	—	—	—	—	19,200		19,200
	Total Pre—Tax Benefit	—	—	—	2,409,248	2,288,066	NA	4,478,448

Name		Voluntary Resignation ($)(10)	Retirement ($)(10)	Termination for Cause ($)(10)	Termination Due to Death or Disability ($)(1)	Termination Without Cause or Resignation with Good Reason ($)(2)(3)	Change of Control Without a Qualifying Termination ($)	Change of Control with a Qualifying Termination ($)(4)
Roger George	Cash Severance	—	—	—	—	960,000		1,640,000
	Stock Option(5)	—	—	—	—	—		—
	Restricted Stock(6)	—	—	—	571,108	234,637		571,108
	Performance-Based Awards(7)	—	—	—	305,565	101,866		305,565
	Other Benefits(9)	—	—	—	—	21,810		21,810
	Total Pre-Tax Benefit	—	—	—	876,673	1,318,313	NA	2,538,483

Name		Voluntary Resignation ($)(10)	Retirement ($)(10)	Termination for Cause ($)(10)	Termination Due to Death or Disability ($)(1)	Termination Without Cause or Resignation with Good Reason ($)(2)(3)	Change of Control Without a Qualifying Termination ($)	Change of Control with a Qualifying Termination ($)(4)
Christopher T. Werner(11)	Cash Severance	—	—	—	—	514,027		—
	Stock Option(5)	—	—	—	—	—		—
	Restricted Stock(6)	—	—	—	—	403,541		—
	Performance-Based Awards(7)	—	—	—	—	29,719		—
	Other Benefits(8)	—	—	—	—	10,996		—
	Total Pre-Tax Benefit	—	—	—	—	958,283	NA	—

(1) "Disability" is defined in our 2015 Plan for awards granted since November 3, 2015.

(2) "Cause" and "Good Reason" are defined in the severance benefit and change of control agreements.

(3) If the executive had been terminated without Cause or resigned with Good Reason on December 31, 2017, under his severance benefit agreement his cash severance would consist of (i) the sum of his base salary and his target annual incentive bonus (calculated as a percentage of his annual base salary for 2017), plus (ii) his target annual incentive bonus (calculated as a percentage of his annual base salary for 2017).

(4) If the executive had been subject to a change of control followed by a qualifying termination (as defined in his change of control agreement) on December 31, 2017, under his change of control agreement, his cash severance would consist of (i) two times (three times for Mr. Way) the sum of his base salary and his target annual incentive bonus (calculated as a percentage of his annual base salary for 2017), plus (ii) his target annual incentive bonus (calculated as a percentage of his annual base salary for 2017).

(5) No executives have stock options (vested or unvested) at this time.

(6) Represents the value of the accelerated vesting of the executive's unvested Exterran restricted stock, based on the December 29, 2017 market closing price.

(7) Represents the value of the accelerated vesting of the executive's unvested Exterran performance-based awards, based on the December 29, 2017 market closing price.

(8) Represents each executive's right to the payment, as applicable, of (i) continued coverage through COBRA benefit premiums under our medical benefit plans for him and his eligible dependents for up to one-year in the event of a termination without Cause or voluntary resignation for Good Reason, or (ii) medical benefit premiums and Exterran contributions under the 401(k) Plan and deferred compensation plan, if any, for a two-year period in the event of a change of control followed by a Qualifying Termination.

(9) Represents each executive's right to an amount equal to eighteen (18) months of (i) premium payments for continuation coverage pursuant to Section 4980B of the Code for the executive and executive's eligible dependents following the Separation Date minus (ii) the cost to the executive of premium payments for healthcare coverage for the executive and executive's eligible dependents during the executive's employment with the Company (calculated based on the executive's elections as in effect on the Date of Termination).

(10) No payments are made to executives under these agreements for voluntary resignations, terminations for cause.

(11) Reflects amounts paid to Mr. Werner pursuant to his Severance Benefit Agreement upon termination of his employment in March 2017.

CEO PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual compensation of our employees and the annual total compensation of our President and CEO. The pay ratio included in this information is a reasonable estimate calculated in a manner consistent with SEC rules.

We have a global workforce, with employees in over 30 countries. 77% of our employees are located outside of the United States. To identify the median employee and the annual total compensation of all our employees excluding the CEO, we took the following steps:

- We selected December 31, 2017 as the determination date for purposes of identifying the median employee. Our employee population as of December 31, 2017 was 4,365, which included all full-time and part-time employees and excluded contractors or persons employed through a third party provider.
- We chose "total cash compensation" (which included base salary or hourly wages plus cash bonuses and cash allowance) as our consistently applied compensation measure. We believe the use of total cash compensation for all employees is a consistently applied compensation measure because we do not widely distribute annual equity to employees. Approximately two percent of our employees receive annual equity awards.
- We identified the median employee by examining the 2017 total cash compensation for all full-time and part-time employees, excluding our CEO, who were employed by us on December 31, 2017. We adjusted estimates with respect to total cash compensation by annualizing the compensation for any newly-hired, full-time employees who were not employed by us for all of 2017.
- With respect to the annual total compensation of the median employee, we identified and calculated the elements of such median employee's compensation using the same methodology reflected in the "2017 Summary Compensation Table," resulting in annual total compensation for our median employee of $34,005.
- Mr. Way's 2017 annual total compensation as reflected in the "2017 Summary Compensation Table" included in this Proxy Statement was $5,859,950.

Based on this information, for 2017 the ratio of the annual total compensation of Mr. Way, our CEO, to the median of the annual total compensation of all employees was 172 to 1.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We recognize that transactions with related persons can present potential or actual conflicts of interest and create the appearance that decisions are based on considerations other than the best interests of our Company and our stockholders. Therefore, our Audit Committee has adopted a written policy on related party transactions to provide guidance and set standards for the approval and reporting of transactions between us and individuals with a direct or indirect affiliation with us and to ensure that those transactions are in our best interest. Any proposed related party transaction must be submitted to the Audit Committee for approval prior to entering into the transaction. Additionally, our policy requires that our subsidiaries report all related party transactions to the SEC Reporting & Technical Accounting Department on a quarterly basis. In the event a senior officer becomes aware of any pending or ongoing related party transaction that has not been previously approved or ratified, the transaction must be promptly submitted to the Audit Committee or its Chair for ratification, amendment or termination of the related party transaction. If a related party transaction is ongoing, the Audit Committee may establish guidelines for management and will annually assess the relationship with such related party.

In reviewing a proposed or ongoing related-party transaction, the Audit Committee will consider, among other things, the following factors to the extent relevant to the related-party transaction:

- whether the terms of the transaction are fair to the Company and would apply on the same basis if the transaction did not involve a related party;
- whether there are any compelling business reasons for the Company to enter into the transaction;
- whether the transaction would impair the independence of an otherwise independent director; and
- whether the transaction would present an improper conflict of interest for any director or executive officer of the Company, taking into account, among other factors the Audit Committee deems relevant, the size of the transaction, the overall financial position of the director, executive officer or other related party, that person’s interest in the transaction and the ongoing nature of any proposed relationship.

There were no related party transactions during 2017 that are required to be reported in this Proxy Statement.

COMPENSATION RELATED PROPOSAL

PROPOSAL 2 - Advisory Vote to Approve Named Executive Officer Compensation

Our Board recognizes that performance-based executive compensation is an important element in driving long-term stockholder value. Pursuant to Section 14A to the Exchange Act, we are providing our stockholders with the opportunity to vote to approve, on a non-binding advisory basis, the compensation of our NEOs as disclosed in this Proxy Statement.

Because the vote on this proposal is advisory in nature, the outcome will not be binding on the Company, the Board or the Compensation Committee, and will not affect compensation already paid or awarded. However, the Board and the Compensation Committee value the opinions of our stockholders and will take into account the outcome of the vote when considering future compensation programs for our NEOs.

As discussed in the Compensation Discussion and Analysis section of this Proxy Statement, our executive compensation principles and programs are designed to attract, motivate and retain individuals with the level of expertise and experience needed to help achieve the business objectives intended to drive both short- and long-term success and stockholder value. The compensation paid to our NEOs reflects our commitment to pay for performance. A significant percentage of our NEOs' compensation is delivered in the form of long-term incentive awards that incentivize management to achieve results to the mutual benefit of stockholders, management and the Company. Moreover, a significant portion of our NEOs' cash compensation is paid in the form of annual performance-based awards that are paid based on the achievement of pre-defined performance measures.

In addition, the Company recognizes that a strong governance framework is essential to an effective executive compensation program. This framework and executive compensation philosophy are established by an independent Compensation Committee that is advised by an independent compensation consultant. We believe the information provided in this Proxy Statement, including the Compensation Discussion and Analysis section, demonstrates that our executive compensation programs have been designed appropriately and work effectively to align management's interests with the interests of stockholders. Accordingly, the Board of Directors requests that you approve our executive compensation programs and philosophy by approving the advisory resolution.

Your Board unanimously recommends that stockholders vote "FOR" the following resolution approving the Company's Named Executive Officer Compensation:

"RESOLVED, that the stockholders of Exterran Corporation approve, on an advisory basis, the compensation paid to its Named Executive Officers for 2017 as disclosed in this Proxy Statement, including the Compensation Discussion and Analysis, the 2017 Summary Compensation Table and any related tables and information in this Proxy Statement."

Approval of Proposal 2 requires the affirmative vote of the holders of a majority of the votes cast in favor of or against the proposal. Abstentions and broker non-votes will have no effect on the outcome of the vote.

AUDIT MATTERS

PROPOSAL 3 - Ratification of Independent Registered Public Accounting Firm

Deloitte & Touche LLP (“Deloitte”) served as our independent registered public accounting firm since 2014. The Audit Committee has selected Deloitte as our independent registered public accounting firm for the fiscal year ending December 2018.

The Board considers the selection of Deloitte to be in the best interests of the Company and its stockholders. Although stockholder approval is not required for appointment of our independent registered public accounting firm, we are requesting ratification because we believe it is a matter of good corporate practice. If our stockholders do not ratify the selection, the Audit Committee will reconsider whether to retain Deloitte. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of us and our stockholders.

The Board of Directors and Audit Committee unanimously recommend that stockholders vote “FOR” the ratification of the reappointment of Deloitte & Touche LLP.

Ratification of Proposal 3 requires the affirmative vote of the holders of a majority of the votes cast in favor of or against the proposal.

Independent Registered Public Accountants

Representatives of Deloitte attended all regularly scheduled meetings of the Audit Committee in 2017. For additional information concerning the Audit Committee and its activities with Deloitte, see “Report of the Audit Committee” contained in this Proxy Statement and “Audit Committee Guidelines for Pre-Approval of Independent Auditor Services” following this proposal description. We expect that a representative of Deloitte will attend the Annual Meeting, and the representative will have an opportunity to make a statement if he or she so chooses. The representative will also be available to respond to appropriate questions from stockholders.

The following table presents applicable fees for professional services rendered by Deloitte and its member firms and respective affiliates on our behalf during calendar years 2017 and 2016 (in thousands).

Types of Fees	2017	2016
Audit fees(a)	$3,556	$3,163
Audit-related fees(b)	—	2,145
Tax fees(c)	21	38
Total fees	$3,577	$5,346

(a) Audit fees include fees billed by our independent registered public accounting firm related to audits and reviews of financial statements we are required to file with the SEC, audits of internal control over financial reporting, statutory audits of certain of our subsidiaries’ financial statements as required under local regulations, and other services including issuance of comfort letters and assistance with and review of documents filed with the SEC.

(b) Audit-related fees for 2016 include fees billed by our independent registered public accounting firm for audit work and reviews of financial statements undertaken in connection with our Restatement of certain of our historical financial results as described in Note 14 to the consolidated and combined financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017.

(c) Tax fees include fees billed by our independent registered public accounting firm primarily related to tax compliance and consulting services.

In considering the nature of the services provided by Deloitte, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte and our management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by (i) the SEC to implement the Sarbanes-Oxley Act of 2002 and (ii) the American Institute of Certified Public Accountants.

Audit Committee Guidelines for Pre-Approval of Independent Auditor Services

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our independent registered public accounting firm. This policy generally provides that we will not engage our independent registered public accounting firm to render audit or non-audit services, and will not engage any other independent registered public accounting firm to render audit services, unless the service is specifically approved in advance by the Audit Committee.

The Audit Committee’s practice is to consider for approval, at its regularly scheduled meetings, all audit and non-audit services proposed to be provided by our independent registered public accounting firm. The independent auditor provides annually an engagement letter outlining the scope of services proposed to be performed during the fiscal year, including audit services and other permissible non-audit services (e.g. audit-related services, tax services, and all other services). For other permissible services not included in the engagement letter, Exterran management will submit a description of the proposed service, including a budget estimate, to the Audit Committee for pre-approval.

In situations where a matter cannot wait until the next regularly scheduled committee meeting, the chair of the Audit Committee has been delegated authority to consider and, if appropriate, approve audit and non-audit services. Approval of services and related fees by the Audit Committee chair is reported to the full Audit Committee at the next regularly scheduled meeting. All services performed by our independent registered public accounting firm in 2017 were pre-approved by our Audit Committee.

Audit Committee Report

The purpose of the Audit Committee is to assist the Board of Directors in its general oversight of Exterran Corporation's ("Exterran") financial reporting, internal controls and audit functions. The Audit Committee Charter describes in greater detail the full responsibilities of the Audit Committee and is available on Exterran's website at http://www.exterran.com.

The Audit Committee has reviewed and discussed the audited consolidated financial statements and management's assessment and report on internal controls over financial reporting for the year ended December 31, 2017 with management and Deloitte & Touche LLP ("Deloitte"), Exterran's independent registered public accounting firm. Exterran published this report in its Annual Report on Form 10-K for the year ended December 31, 2017, which it filed with the SEC on February 28, 2018. Management is responsible for the preparation, presentation and integrity of financial statements and the reporting process, including the system of internal controls. Deloitte is responsible for performing an independent audit of Exterran's financial statements and the effectiveness of internal control and financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and issuing reports thereon. The Audit Committee monitors these processes.

The Audit Committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management or the independent auditors. The Audit Committee serves a board-level oversight role, in which it provides advice, counsel and direction to management and the independent auditors on the basis of the information it receives, discussions with management and the independent auditors, and the experience of the Audit Committee's members in business, financial and accounting matters. In accordance with law, the Audit Committee has ultimate authority and responsibility for selecting, compensating, evaluating, and, when appropriate, replacing Exterran's independent auditors. The Audit Committee has the authority to engage its own outside advisers, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisers hired by management.

In this context, the Audit Committee discussed with Exterran's internal auditors and Deloitte the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and Deloitte, with and without management present, to discuss the results of their examinations, their evaluations of Exterran's internal controls, and the overall quality of Exterran's financial reporting. Management represented to the Audit Committee that Exterran's financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee reviewed and discussed the financial statements with management and Deloitte. The Audit Committee also discussed with Deloitte the matters required to be discussed by Auditing Standard No. 16 (Communication with Audit Committees), as currently in effect.

In addition, the Audit Committee discussed with Deloitte its independence, considered the compatibility of non-audit services with the auditors' independence and received the written disclosures and letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as currently in effect.

Based on the reviews and discussions referred to above, the Audit Committee recommended to Exterran's Board of Directors, and the Board has concurred, that (i) the audited financial statements be included in Exterran's Annual Report on Form 10-K for the twelve months ended December 31, 2017, for filing with the Securities and Exchange Commission; (ii) Deloitte meets the requirements for independence; and (iii) the appointment of Deloitte for 2018 be submitted to the stockholders for ratification.

The Audit Committee of the Board of Directors

William M. Goodyear, Chair

James C. Gouin
John P. Ryan
Christopher T. Seaver
Richard R. Stewart

The information contained in this Report of the Audit Committee shall not be deemed to be "soliciting material," to be "filed" with the SEC or be subject to Regulation 14A or Regulation 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed to be incorporated by reference into any filing of Exterran, except to the extent that Exterran specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

CHARTER AMENDMENT

PROPOSAL 4 - Approval of Amendment to our Amended and Restated Certificate of Incorporation to Eliminate Super-Majority Vote Required for Stockholders to Amend Bylaws

In April 2017, our Board of Directors approved and adopted an amendment to Article IX of our Bylaws to change the vote required for stockholders to amend our Bylaws from the affirmative vote of the holders of 66-2/3% of the voting power of our outstanding common stock to the affirmative vote of the holders of a majority of the voting power of our outstanding common stock. This amendment was, however, subject to the limitations in our Certificate of Incorporation that also required the approval by holders of 66-2/3% of the voting power of our common stock to amend our Bylaws.

The Company is now submitting this proposal to amend Article SEVEN of our Certificate of Incorporation (the "Certificate Amendment") to replace the vote required for stockholders to amend our Bylaws from the affirmative vote of the holders of 66-2/3% of the voting power of our outstanding common stock to the affirmative vote of the holders of a majority of the voting power of our outstanding common stock.

The proposed Certificate Amendment is set forth below in its entirety:

SEVEN: In furtherance and not in limitation of the powers conferred by the GCL, the Board of Directors is expressly empowered to adopt, amend or repeal Bylaws of the Corporation, without any action on the part of the stockholders. The stockholders shall also have power to adopt, amend or repeal the Bylaws of the Corporation, whether adopted by them or otherwise; provided, however, that, in addition to any vote of the holders of any class or series of capital stock of the Corporation required by law or by this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of 66-2/3% a majority of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required for the stockholders to adopt, amend or repeal any provision of the Bylaws of the Corporation.

The Board believes that the Certificate Amendment is advisable and in the best interests of our stockholders. If approved by our stockholders, it will become effective upon the filing of a Certificate of Amendment to our Certificate of Incorporation with the Delaware Secretary of State, which we will do promptly after the annual meeting.

The Board of Directors unanimously recommends that the stockholders vote "FOR" the proposed amendment to the Certificate of Incorporation.

Approval of Proposal 4 requires the affirmative vote of the holders of a majority of the voting power outstanding.

EXECUTIVE OFFICERS

The following provides information regarding our executive officers as of February 28, 2018. Information concerning the business experience of Mr. Way is provided under "Our 2018 Director Nominees" beginning on page 8 of this Proxy Statement.

Executive Officer	Age	Position
Andrew J. Way	46	President, Chief Executive Officer and Director
David A. Barta	55	Senior Vice President and Chief Financial Officer
Roger George	49	Senior Vice President, Global Engineering and Product Lines
Girish K. Saligram	46	Senior Vice President, Global Services

David A. Barta has served as Senior Vice President since November 2016 and Chief Financial Officer since December 2016. Prior to joining Exterran, Mr. Barta was Senior Vice President and Chief Financial Officer of Accudyne Industries from 2013 to 2016. Mr. Barta served as Chief Financial Officer of Cooper Industries from 2010 until its sale in 2012 and as Chief Financial Officer of Regal Beloit Corporation from 2004 to 2010. Prior to 2010, Mr. Barta worked nine years at Newell Rubbermaid, Inc. in financial management positions, and held various financial positions with Harman International Industries, North American Van Lines and Beatrice Foods.

Roger George has served as Senior Vice President, Global Engineering and Product Lines since December 2016. Before joining Exterran, Mr. George held a series of leadership roles with GE from 2005 to 2016. His most recent role with GE was Product Line Leader of its 50Hz Utility Gas Turbine business. Prior to that, he served as General Manager and as an executive of GE Distributed Power running Global Sales and Commercial Operations from 2012 to 2016. Earlier in his career Mr. George worked for Optimal CAE, Inc. and the Ford Motor Company.

Girish K. Saligram has served as Senior Vice President, Global Services since August 2016. Prior to joining Exterran, Mr. Saligram spent 20 years with GE in positions of increasing responsibility as a functional and business leader in industry sectors across the globe. His most recent role with GE was General Manager, Downstream Products & Services, for GE Oil & Gas. Prior to that, Mr. Saligram led the GE Oil & Gas Contractual Services business based in Florence, Italy. Before his nine years in the oil and gas sector, Mr. Saligram spent 12 years with GE Healthcare in engineering, services, operations and commercial roles.

EXTERRAN SHARE OWNERSHIP

Security Ownership of Certain Beneficial Owners

The following table provides information about beneficial owners, known by us as of February 28, 2018, of 5% or more of our outstanding common stock (the “5% Stockholders”). Unless otherwise noted in the footnotes to the table, the 5% Stockholders named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned		Percent of Class(1)	
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	4,909,339	(2)	13.7	%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, Pennsylvania 19355	3,443,451	(3)	9.6	%
Chai Trust Company LLC 2 North Riverside Plaza, Suite 600 Chicago, Illinois 60606	3,213,442	(4)	9.0	%
Dimensional Fund Advisors, L.P. Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	3,028,530	(5)	8.5	%

(1) Reflects shares of common stock beneficially owned as a percentage of 35,760,917 shares of common stock outstanding as of February 28, 2018

(2) Based solely on a review of the Schedule 13G filed by BlackRock, Inc. on January 23, 2018. BlackRock, Inc. has sole voting or dispositive power over 4,909,339 shares.

(3) Based solely on a review of the Schedule 13G filed by The Vanguard Group, Inc. (“Vanguard”) on February 9, 2018. Vanguard Fiduciary Trust Company (“VFTC”) a wholly-owned subsidiary of Vanguard is the beneficial owner of 32,661 shares as a result of serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd. (“VIA”) is the beneficial owner of 7,577 shares as a result of serving as investment manager of Australian investment offerings. Vanguard has sole dispositive power over 3,406,330 shares and shared dispositive power with VFTC over 37,121 shares.

(4) Based solely on a review of the Schedule 13D filed by Chai Trust Company LLC (“Chai Trust”) and certain other related reporting persons on March 10, 2016. Chai Trust is the managing member of EGI-Fund (05-07) Investors, L.L.C., a Delaware limited liability company (“Fund 05-07”), EGI-Fund (11-13) Investors, L.L.C., a Delaware limited liability company (“Fund 11-13”), and EGI-Fund B, L.L.C., a Delaware limited liability company (“Fund B”), and is the non-member manager of EGI-Fund (08-10) Investors, L.L.C., a Delaware limited liability company (“Fund 08-10”). The shares of common stock beneficially owned by Chai Trust include 447,567 shares of common stock held by Fund 05-07, 332,327 shares of common stock held by Fund 08-10, 908,742 shares of common stock held by Fund 11-13 and 1,524,806 shares of common stock held by Fund B.

(5) Based solely on a review of the Schedule 13G filed by Dimensional Fund Advisors LP (“Dimensional”) on February 9, 2018. Dimensional provides investment advice to four registered investment companies and acts as investment manager or sub-advisor to certain other commingled funds, group trusts and separate accounts (collectively, the “Funds”). Dimensional and its subsidiaries may act as an adviser, sub-adviser and/or manager to

certain Funds and possess voting or dispositive power over the 3,028,530 shares held by the Funds and may be deemed to be the beneficial owner of the shares held by the Funds. However, all shares are owned by the Funds, and Dimensional disclaims beneficial ownership of such shares.

Security Ownership of Management

The following table provides information, as of February 28, 2018, regarding the beneficial ownership of our common stock by each of our directors, each of our 2017 NEOs (as identified beginning on page 21 of this Proxy Statement), and all of our current directors and executive officers as a group. Unless otherwise noted in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The address for each executive officer and director listed below is c/o Exterran Corporation, 4444 Brittmoore Rd, Houston, Texas 77041.

Name of Beneficial Owner	Shares Owned Directly	Restricted Stock(1)	Right to Acquire Stock(2)	Indirect Ownership	Total Ownership	Percent of Class
Non-Employee Directors						
William M. Goodyear	24,043	—	—	—	24,043	*
James C. Gouin	10,928	—	—	—	10,928	*
John P. Ryan(4)	24,239	—	—	—	24,239	*
Christopher T. Seaver	50,905	—	—	—	50,905	*
Mark R. Sotir(3)	29,042	—	—	—	29,042	*
Richard R. Stewart	12,445	—	—	—	12,445	*
Ieda Gomes Yell(4)	17,482	—	—	—	17,482	*
Named Executive Officers						
Andrew J. Way	121,382	307,406	—	—	428,788	*
David A. Barta	11,925	45,788	—	—	57,713	*
Girish K. Saligram	3,707	63,672	—	—	67,379	*
Roger George	3,068	18,165	—	—	21,233	*
Christopher T. Werner(5)	6,032	22,163	—	—	28,195	*
All directors and executive officers as a group (12 persons)						2.2 %

* Less than 1.2%

(1) Includes unvested restricted stock awards which generally vest ratably on each anniversary date of grant over a three-year period from the original date of grant. Officers have voting power and, once vested, dispositive power.

(2) Includes shares that can be acquired immediately or within 60 days of March 2, 2018 through the exercise of stock options.

(3) Mr. Sotir is Co-President of Equity Group Investments, a division of Chai Trust. Chai Trust is the beneficial owner of approximately 3.2 million shares of our common stock as of March 10, 2016; however, Mr. Sotir disclaims beneficial ownership of such shares.

(4) Includes phantom units granted under the Amended and Restated Directors' Stock and Deferral Plan to Mr. Ryan and Ms. Gomes Yell.

(5) Information based on Company records and last filed Statement of Changes of Beneficial Ownership (Form 4).

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, directors, executive officers and beneficial owners of 10% or more of our common stock ("Reporting Persons") are required to report to the SEC on a timely basis the initiation of their status as a Reporting Person and any changes with respect to their beneficial ownership of our common stock. Based solely on a review of Forms 3, 4 and 5 (and any amendments thereto) furnished to us, we have concluded that no Reporting

Persons were delinquent in 2017 with respect to their reporting obligations, as set forth in Section 16(a) of the Exchange Act.

ADDITIONAL INFORMATION

2019 Annual Meeting of Stockholders

Any stockholder proposal that is intended for inclusion in our Proxy Statement for our 2019 annual meeting of stockholders must be received by our Corporate Secretary no later than November 16, 2018.

Our Bylaws establish an advance notice procedure for stockholder proposals or director nominations to be brought before an annual meeting but not included in our Proxy Statement. Under these Bylaw provisions, we must receive written notice of a stockholder proposal or director nomination to be brought before the 2019 annual meeting of stockholders on or after November 16, 2018 and no later than December 17, 2018 for that proposal or nomination to be considered timely. Stockholder proposals and director nominations brought under these Bylaw provisions must include the information required under our Bylaws, including the following:

- a description of the material terms of certain derivative instruments to which the stockholder or the beneficial owner, if any, on whose behalf the nomination or proposal is being made is a party, a description of the material terms of any proportionate interest in our shares or derivative instruments held by a general or limited partnership in which such person is a general partner or beneficially owns an interest in a general partner, and a description of the material terms of any performance-related fees to which such person is entitled based on any increase or decrease in the value of our shares or derivative instruments; and

- with respect to a nomination of a director, a description of the material terms of all direct and indirect compensation and other material monetary arrangements during the past three years, and any other material relationships between or among the proponent of the nomination and his or her affiliates, on the one hand, and each proposed nominee and his or her affiliates, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under the SEC's Regulation S-K if the proposing person were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant.

A stockholder submitting a proposal or director nomination under our Bylaw provisions must also, among other things:

- include the name, address, age and occupation of the stockholder, and the number of our shares that are, directly or indirectly, owned beneficially and of record by the stockholder;
- state whether the stockholder intends to deliver a proxy statement and form of proxy to holders of a sufficient number of voting shares to carry the proposal or to elect the nominee or nominees, as applicable;
- be a stockholder of record as of the time of giving the notice and at the time of the meeting at which the proposal or nomination will be considered and include a representation to that effect; and
- update and supplement the required information 10 business days prior to the date of the meeting.

Our Bylaw requirements are in addition to the SEC's requirements with which a stockholder must comply to have a stockholder proposal included in our Proxy Statement. Stockholders may obtain a copy of our Bylaws by making a written request to our Corporate Secretary. Any stockholder-recommended director nominee will be evaluated in the context of our director qualification standards and the existing size and composition of the Board.

Stockholder proposals and nominations of directors must be delivered to our principal executive office at 4444 Brittmoore Road, Houston, Texas 77041, Attention: Corporate Secretary.

FREQUENTLY ASKED QUESTIONS ABOUT
THE MEETING AND VOTING

When and where will the Annual Meeting be held?

We will hold our 2018 Annual Stockholders Meeting jointly at two locations on Thursday, April 26, 2018, at 8:30 a.m. Central Daylight time at King & Spalding LLP, 1111 Louisiana Street, Suite 4000, Houston, Texas, USA and at 5:30 p.m. Gulf Standard Time at King & Spalding LLP, Al Fattan Currency House, Tower 2, Level 24, Dubai International Financial Centre, Dubai, UAE. We are holding a live annual meeting simultaneously in two locations by tele-video conferencing in order to allow our international stockholders to attend in person.

Who may vote?

You may vote if you were a holder of record of Exterran common stock as of the close of business on February 28, 2018, the record date for the Annual Meeting. Each share of common stock is entitled to one vote. As of the record date, there were 35,760,917 shares of Exterran common stock outstanding and entitled to vote.

What am I voting on and how does the Board recommend that I vote?

Proposal No.	Description of Proposal	Page No. Where You Can Find More Information Regarding the Proposal	Board Recommendation
1	Election of seven directors to serve for a term expiring at the next annual meeting of stockholders	5	FOR each nominee
2	Advisory vote to approve Named Executive Officer Compensation	49	FOR
3	Ratification of independent registered public accounting firm	50	FOR
4	Approval of amendment to our Amended and Restated Certificate of Incorporation to eliminate the super-majority vote required for stockholders to amend our Bylaws	53	1 YEAR

In addition, stockholders will be asked to consider at the Annual Meeting such other business as may properly come before the meeting or any adjournment thereof. For any other matters that may be properly presented for consideration at the Annual Meeting, the persons named as proxies will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. As of the date of this Proxy Statement, we do not anticipate that any other matters will be properly presented for consideration at the Annual Meeting.

How do I vote?

You may vote by any of the following methods:

Meeting. In person at the Annual Meeting at either of the two locations where the Annual Meeting is being held. If you hold your shares through a broker or other intermediary, you will need proof of your stockholdings to attend the meeting. A recent account statement, letter or proxy from your broker or other intermediary will suffice.

Internet. By Internet at http://www.proxyvote.com. You will need the 12-digit Control Number included on the Notice or on your proxy card. Online procedures are designed to ensure the authenticity and correctness of your proxy vote instructions.

Telephone. If you received a proxy card by mail, by dialing (via touch-tone telephone) the toll-free phone number on your proxy card under “Vote by Phone” and following the instructions.

Mail. If you received a proxy card by mail, by completing, signing and dating your proxy card or voting instruction form and returning it promptly in the envelope provided.

To be counted, votes by Internet, telephone or mail must be received by 11:59 p.m. Eastern Daylight Time on April 26, 2018.

Can I change my vote?

Yes. You may change your vote or revoke your proxy before the voting polls are closed at the Annual Meeting by the following methods:

- voting again by telephone or Internet;
- sending us a signed and dated proxy card dated later than your last vote;
- notifying the Corporate Secretary of Exterran in writing (in the case of a revocation); or
- voting in person at the Annual Meeting at either of the two locations where the Annual Meeting is being held.

How many votes must be present to hold the Annual Meeting?

A quorum of stockholders is necessary for a valid meeting. The presence in person or by proxy of the holders of a majority of the outstanding shares of our common stock will constitute a quorum for the Annual Meeting. Under our Bylaws and under Delaware law, abstentions and “broker non-votes” are counted as present in determining whether the quorum requirement is satisfied.

What is a broker non-vote?

A “broker non-vote” occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that proposal and has not received instructions from the beneficial owner. Under the rules of the NYSE, brokers do not have discretionary authority to vote shares in connection with non-routine matters without instructions from the beneficial owner. Therefore, if you hold your shares in the name of a bank, broker or other holder of record, for your vote to be counted on any of the proposals other than Proposal 3 (ratification of independent registered public accounting firm), you will need to communicate your voting decisions to your bank, broker or other holder of record before April 25, 2018.

What impact do broker non-votes and abstentions have on matters to be considered at the meeting?

Abstentions and broker non-votes will count as votes against Proposal 4 (approval of the amendment to our Certificate of Incorporation). Abstentions and broker non-votes will not have any effect on the vote for any of the other proposals but will count towards establishment of a quorum.

Who pays for the proxy solicitation related to the Annual Meeting?

We will pay the cost of soliciting proxies. In addition to sending you these proxy materials or otherwise providing you access to these proxy materials, some of our officers, as well as management and non-management employees, may contact our stockholders by telephone, facsimile or in person. None of these officers or employees will receive additional compensation for any such solicitation. We have also retained Innisfree M&A Incorporated to assist in the solicitation of proxies as well as provide advisory services to the Company, for a fee of approximately $15,000 plus out-of-pocket expenses which will be paid by the Company. We will also request brokers and other fiduciaries to forward proxy soliciting materials to the beneficial owners of shares of our common stock that are held of record by such brokers and fiduciaries, and we will reimburse their reasonable out-of-pocket expenses.

If you have any questions or require any assistance with voting your shares, please contact Innisfree M&A Incorporated, our proxy solicitor, toll-free at (888) 750-5834. Banks and brokers may call collect at (212) 750-5833.

INNISFREE M&A INCORPORATED
501 Madison Avenue, 20th Floor New York, NY 10022
Stockholders May Call Toll-Free: (888) 750-5834 (from the United States and Canada)
Banks and Brokers May Call Collect: (212) 750-5833

How can I view the stockholder list?

A complete list of stockholders of record entitled to vote at the Annual Meeting will be available for viewing during ordinary business hours for a period of ten days before the Annual Meeting at our offices at 4444 Brittmoore Road, Houston, Texas 77041 and at our offices located in FZE East Wing 5B, 4th Floor Dubai Airport Free Zone, PO Box 293509, Dubai, United Arab Emirates.

Who will tabulate and certify the vote?

Broadridge Financial Solutions, Inc., an independent third party, will tabulate and certify the vote and will have a representative to act as the independent inspector of elections for the Annual Meeting.

What if I want a copy of the Company's 2017 Annual Report on Form 10-K?

We will provide to any stockholder or potential investor, without charge, upon written or oral request, by first class mail or other equally prompt means, a copy of our Annual Report on Form 10-K for the year ended December 31, 2017. Please direct any such requests to the attention of Investor Relations, Exterran Corporation, 4444 Brittmoore Rd., Houston, Texas 77041, or by email to investor.relations@exterran.com or by telephone at (281) 836-7000. This document is also available at the SEC's website, which can be found at http://www.sec.gov.

What if I share my residence with another stockholder, how many copies of the Notice of Internet Availability of Proxy Materials or of the printed proxy materials will I receive?

In accordance with SEC rules, we are sending only a single Notice of Internet Availability of Proxy Materials or set of the printed proxy materials to any household at which two or more stockholders reside if they share the same last name or we reasonably believe they are members of the same family, unless we have received instructions to the contrary from any stockholder at that address. This practice, known as "householding," reduces the volume of duplicate information received at your household and helps us reduce costs.

Each stockholder subject to householding that requests printed proxy materials will receive a separate proxy card or voting instruction card. We will deliver promptly, upon written request, a separate copy of the annual report or proxy statement, as applicable, to a stockholder at a shared address to which a single copy of the document was previously delivered. If you received a single set of these documents for this year, but you would prefer to receive your own copy, you may direct requests for separate copies to our Transfer Agent at the following address: American Stock Transfer, Shareholder Services Department, 6201 15th Avenue, Brooklyn, New York, 11219, or you may call (800) 937-5449 or email info@ASTfinancial.com. If you are a stockholder who receives multiple copies of our proxy materials, you may request householding by contacting us in the same manner and requesting a householding consent form.

What if I consent to have one set of materials mailed now but change my mind later?

You may withdraw your householding consent at any time by contacting our Transfer Agent at the address, telephone number and email address provided above. We will begin sending separate copies of stockholder communications to you within 30 days of receipt of your instruction.

The reason I receive multiple sets of materials is because some of the shares belong to my children. What happens if they move out and no longer live in my household?

When we receive notice of an address change for one of the members of the household, we will begin sending separate copies of stockholder communications directly to the stockholder at his or her new address. You may notify us of a change of address by contacting our Transfer Agent at the address, telephone number and email address provided above.

APPENDIX A

Reconciliation of GAAP and Non-GAAP Financial Measures

We define EBITDA, as adjusted, as net income (loss) excluding income (loss) from discontinued operations (net of tax), cumulative effect of accounting changes (net of tax), income taxes, interest expense (including debt extinguishment costs), depreciation and amortization expense, impairment charges, restructuring and other charges, non-cash gains or losses from foreign currency exchange rate changes recorded on intercompany obligations, expensed acquisition costs and other items. We believe EBITDA, as adjusted, is an important measure of operating performance because it allows management, investors and others to evaluate and compare our core operating results from period to period by removing the impact of our capital structure (interest expense from our outstanding debt), asset base (depreciation and amortization), our subsidiaries' capital structure (non-cash gains or losses from foreign currency exchange rate changes on intercompany obligations), tax consequences, impairment charges, restructuring and other charges, expensed acquisition costs and other items. Management uses EBITDA, as adjusted, as a supplemental measure to review current period operating performance, comparability measures and performance measures for period to period comparisons. In addition, the compensation committee has used EBITDA, as adjusted, in evaluating the performance of the Company and management and in evaluating certain components of executive compensation, including performance-based annual incentive programs. Our EBITDA, as adjusted, may not be comparable to a similarly titled measure of another company because other entities may not calculate EBITDA in the same manner.

EBITDA, as adjusted, is not a measure of financial performance under GAAP and should not be considered in isolation or as an alternative to net income (loss), cash flows from operating activities or any other measure determined in accordance with GAAP. Items excluded from EBITDA, as adjusted, are significant and necessary components to the operation of our business and therefore, EBITDA, as adjusted, should only be used as a supplemental measure of our operating performance.

The following table reconciles our net income (loss) to EBITDA, as adjusted (in thousands):

	Years Ended December 31,	
	2017	2016
Net income (loss)	$33,880	$(227,937)
(Income) loss from discontinued operations, net of tax	(39,736)	56,171
Depreciation and amortization	107,824	132,886
Long-lived asset impairment	5,700	14,495
Restatement related charges	3,419	18,879
Restructuring and other charges	3,189	22,038
Proceeds from sale of joint venture assets	—	(10,403)
Interest expense	34,826	34,181
Gain on currency exchange rate remeasurement of intercompany balances	(516)	(8,559)
Loss on sale of businesses	111	—
Penalties from Brazilian tax programs	1,763	—
Provision for income taxes	22,695	124,242
EBITDA, as adjusted	$173,155	$155,993

——— A LEADING PROCESS AND SYSTEMS COMPANY ———
– oil – gas – water – power –

Exterran Corporation
www.exterran.com
4444 Brittmoore Rd.
Houston, Texas 77041

' style="margin-top:0;margin-bottom:0">Disposals/Retirement

(108)

(94)

(63)

(20)

(23)

(1)

(42)

(8)

(6)

(365)

Accumulated depreciation and amortization

(4,119)

(5,325)

(6,866)

(686)

(2,291)

(724)

(389)

(34)

(20,434)

Closing net book value

89,420

63,487

36,504

20,443

9,766

6,098

3,079

2,497

12,662

243,956

At September 30, 2004 (Unaudited)

Cost

124,108

109,499

71,672

26,472

27,065

14,998

5,592

2,838

12,741

394,985

Accumulated depreciation and amortization

(34,688)

(46,012)

(35,168)

(6,029)

(17,299)

(8,900)

(2,513)

(341)

(79)

(151,029)

Net book value

89,420

63,487

36,504

20,443

9,766

6,098

3,079

2,497

12,662

243,956

Substantially all our telecommunications equipment is purchased from outside the Philippines. A significant source of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars (see *Note 12 Long-term Debt*). Interest, using an average capitalization rate of 7%, and net foreign exchange losses capitalized to property, plant and equipment for the nine months ended September 30, 2004 and 2003 were as follows:

	Nine Months Ended September 30,	
	2004	2003
	(Unaudited) (in million pesos)	
Interest	**471**	745
Foreign exchange losses - net	**1,037**	3,708

As of September 30, 2004 and December 31, 2003, the undepreciated capitalized net foreign exchange losses amounted to Php57,875 million and Php61,603 million, respectively, on a consolidated basis.

In 2004, asset impairment charges of Php297 million were recognized for certain international facility equipment of PLDT Global and SubicTel in relation to our strategic direction to functionally integrate our international fixed line business.

In June 2003, ACeS Philippines recognized an impairment provision of Php974 million in respect of certain equipment in relation to the business of ACeS International Limited, or AIL, after having determined certain factors which raised substantial doubt about AIL s ability to continue as a going concern. See *Note 8 Investments* for further discussion.

Certain property, plant and equipment have been restated to include the following amounts for capitalized leases as of September 30, 2004 and December 31, 2003:

	September 30, 2004 (Unaudited)			December 31, 2003 (As restated Note 2)		
	Central office equipment	**Vehicles, furniture and other network equipment**	**Total**	Central office equipment	Vehicles, furniture and other network equipment	Total
	(in million pesos)					
Cost	**361**	**727**	**1,088**	361	574	935
Less accumulated depreciation	**264**	**320**	**584**	245	153	398
	97	**407**	**504**	116	421	537

The future minimum payments for capitalized leases are as follows as of September 30, 2004:

Year	(Unaudited) (in million pesos)
2004(1)	346
2005	415
2006	347
2007	241
2008	7
2009 and onwards	444
Total minimum lease payments	1,800
Less amount representing interest	744
Present value of net minimum lease payments	1,056
Less current portion	405
Long-term obligations (Note 13)	651

(1) October 1, 2004 through December 31, 2004

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume or permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

8. Investments

This account consists of:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Investments in shares:		
Cost:		
Common	**1,010**	1,024
Preferred	**616**	631
	1,626	1,655
Less accumulated equity and impairment	**1,069**	132
Total cost and accumulated equity in net income of investees	**557**	1,523
Investment in debt securities	**231**	
	788	1,523

Investment of ePLDT in Debt Securities of First Advance Multi-Media Entertainment Corp., or FAME

On June 1, 2004, ePLDT and FAME entered an agreement wherein ePLDT would grant a non-interest bearing loan to FAME amounting to US$3.1 million. At the option of ePLDT, the loan is convertible into 20% of the total outstanding capital stock of FAME at any time during the life of the outstanding loan. ePLDT has not yet converted its investment in debt securities to FAME s shares of stock as of September 30, 2004. FAME would be the systems integrator for the internet and mobile telephone gaming project.

9. Other Noncurrent Assets

This account consists of:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Receivables from derivative transactions (Note 24)	**4,115**	1,361
Debt issuance costs net	**1,511**	2,023
Prepaid pension cost (Note 17)	**1,207**	1,151
Deferred charges (Note 16)	**983**	1,022
Refundable deposits	**470**	429
Others	**2,116**	1,094
	10,402	7,080

10. Notes Payable

On April 28, 2003 and May 14, 2003, PLDT issued, at a discount, Php1,600 million and Php400 million One-Year Peso Notes, respectively, under its Php2 billion Peso Notes program registered with the Philippine Securities and Exchange Commission. Net proceeds of the issue totaled Php1,803 million. The Php1,600 million One-Year Peso Note matured on April 22, 2004 and the Php400 million One-Year Peso Note matured on May 11, 2004.

11. Accrued Expenses and Other Current Liabilities

This account consists of:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Accrued utilities and other expenses	**4,153**	4,102
Accrual for payment for unused sick leave and other employee benefits	**3,051**	2,628
Accrued interest on various loans (Notes 11 and 12)	**2,719**	2,377
Unearned revenues on sale of prepaid cards	**2,579**	2,860
Accrued taxes and other expenses	**2,013**	2,326
Current portion of provision for onerous contract and assessments (Note 22)	**474**	394
Liabilities from derivative transactions (Note 24)	**384**	91
Others	**2,576**	1,658
	17,949	16,436

12. Long-term Debt

This account consists of outstanding long-term debt of the following:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
PLDT (net of unamortized discount of Php77 million in 2004 and Php85 million in 2003)	**123,736**	135,403
Smart (net of unamortized discount of Php7,369 million in 2004)	**25,834**	20,586
Piltel (net of unamortized discount of Php2,073 million in 2004 and Php5,796 million in 2003)	**5,155**	17,637
Mabuhay Satellite	**4,059**	4,723
ePLDT	**160**	105
Vocativ	**149**	
Maratel	**14**	25
	159,107	178,479
Less current portion	**31,508**	23,810
	127,599	154,669

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as of September 30, 2004 are as follows:

Year	**U.S. Dollar Loans In U.S. Dollar**	**U.S. Dollar Loans In Php**	**JPY Loans In JPY**	**JPY Loans In Php**	**Php Loans In Php**	**Total In Php**
	(in millions)					
2004(1)	79	4,448	2,014	1,031	669	6,148
2005	470	26,455	6,818	3,489	880	30,824
2006	442	24,888	6,816	3,488	852	29,228
2007	483	27,139	3,178	1,626	78	28,843
2008	78	4,407	1,589	813	67	5,287
2009 and onwards	1,191	67,026			1,270	68,296

(1) October 1, 2004 through December 31, 2004

PLDT

PLDT s aggregate outstanding indebtedness is broken down as follows:

Description	**September 30, 2004 (Unaudited)**		December 31, 2003 (Audited)	
	(in millions)			
U.S. Dollars				
Export Credit Agencies-Supported Loans:				
Kreditanstalt für Wiederaufbau, or KfW	**US$367**	**Php20,677**	US$398	Php22,099
Japan Bank for International Cooperation, or JBIC/Co-financing Banks	**46**	**2,598**	65	3,644
Others	**107**	**5,991**	136	7,569
	520	**29,266**	599	33,312
Fixed Rate Notes	**1,312**	**73,834**	1,415	78,666
Term Loans	**129**	**7,255**	167	9,290
	US$1,961	**110,355**	US$2,181	121,268
Japanese Yen				
JBIC s Overseas Investment Loan, or OIL	**JP¥9,760**	**4,994**	JP¥9,760	5,068
Export Credit Agencies-Supported Loan:				
Nippon Export and Investment Insurance of Japan, or NEXI, Supported Loan	**1,560**	**799**		
Term Loans	**9,095**	**4,654**	10,914	5,668
	JP¥20,415	**10,447**	JP¥20,674	10,736
Philippine Pesos				
Peso Fixed Rate Corporate Notes		**2,180**		2,180
Term Loans		**831**		1,304
		3,011		3,484
		123,813		135,488
Less unamortized discount		**77**		85
		123,736		135,403
Less current portion		**23,124**		15,850
		Php100,612		Php119,553

The effective average interest rates applicable to the above indebtedness are as follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (Audited)

Dollar-denominated loans	**8.2%**	8.1%
Yen-denominated loans	**3.2%**	2.2%
Peso-denominated loans	**14.1%**	13.7%

Export Credit Agencies-Supported Loans

In order to obtain imported components for our network infrastructure in connection with our expansion and service improvement programs, we have obtained loans extended and/or guaranteed by various export credit agencies. These financings account for a significant portion of PLDT s indebtedness.

KfW, a German state-owned development bank, is PLDT s largest single creditor. As of September 30, 2004, we owed US$367 million aggregate principal amount of debt to KfW, as follows:

- US$271 million provided under various export credit agency-backed facilities, of which US$161 million was in connection with our expansion and service improvement programs and US$110 million in connection with the US$149 million refinancing facility discussed below; and

- US$96 million provided for the 15% downpayment portion and credit facilities without guarantee/insurance cover from the export credit agencies, of which US$30 million was in connection with the US$149 million refinancing facility discussed below.

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. We have drawn US$140 million (Php7,876 million) under this facility as of September 30, 2004. PLDT waived further disbursements under this refinancing facility effective September 1, 2004. Thus, the undrawn portion of US$9 million was cancelled.

Of the amounts outstanding under these KfW loans, US$16 million of our KfW loans will mature in 2004, US$82 million in 2005, US$57 million in 2006, US$78 million in 2007, US$58 million in 2008 and US$76 million in 2009 and onwards.

PLDT has also obtained loans extended and/or guaranteed by other export credit agencies, including JBIC (formerly known as the Export-Import Bank of Japan), the Export-Import Bank of the United States, or Ex-Im Bank, and the respective export credit agencies of France, Italy, Israel, Sweden, Denmark, Canada, Australia, Singapore and the United Kingdom, in the aggregate outstanding principal amount of US$153 million and US$201 million as of September 30, 2004 and December 31, 2003, respectively. Of the amounts outstanding under these loans, US$14 million will mature in 2004, US$52 million in 2005, US$42 million in 2006, US$32 million in 2007, US$8 million in 2008 and US$5 million in 2009 and onwards.

Fixed Rate Notes

PLDT has seven series of non-amortizing fixed rate notes outstanding as of September 30, 2004, as follows:

Principal Amount	Issue Date	Interest Rate	Maturity
US$134,245,000	July 31, 1995	9.875%	August 1, 2005
US$164,574,000	June 28, 1996	9.250%	June 30, 2006
US$196,800,000	March 6, 1997	7.850%	March 6, 2007
US$91,388,000	May 2, 2002	10.625%	May 15, 2007
US$175,000,000	April 13, 1999	10.500%	April 15, 2009
US$250,000,000	May 2, 2002	11.375%	May 15, 2012
US$300,000,000	March 6, 1997	8.350%	March 6, 2017

JBIC JP¥9,760 Million Overseas Investment Term Loan

On July 26, 2002, PLDT signed a loan agreement with JBIC for a credit facility of JP¥9,760 million under the JBIC s OIL program. The loan, which was drawn on July 31, 2002, will be amortized semi-annually beginning March 21, 2005 and will mature on March 21, 2008.

JP¥5,615 Million Syndicated Term Loan Facility

On June 11, 2003, PLDT signed a JP¥5,615 million syndicated term loan facility supported by NEXI, of which JP¥1,560 million was drawn and remained outstanding as of September 30, 2004. This loan will be amortized semi-annually beginning December 2004 and will mature on June 2008.

Php2,770 Million Peso Fixed Rate Corporate Notes

In connection with PLDT s service improvement and expansion programs, PLDT has entered into two loan agreements, pursuant to each of which PLDT issued fixed rate corporate notes in three tranches. Interest on each tranche is payable semi-annually.

Under the first loan agreement, PLDT borrowed an aggregate amount of Php1,500 million, of which Php230 million matured on November 11, 2002, Php500 million will mature on November 9, 2004, and Php770 million on November 9, 2006.

Under the second loan agreement, PLDT borrowed an aggregate amount of Php1,270 million, of which Php360 million matured on June 9, 2003, Php100 million will mature on June 9, 2005, and Php810 million on June 9, 2010.

Local Exchange Transfer Loans

In connection with the transfer to PLDT of Smart s local exchange business, PLDT entered into loan agreements with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., or FMO, of the Netherlands, Exportkreditnamden, or EKN, of Sweden and Export Credits Guarantee Department, or ECGD, of the United Kingdom for loans in the principal amounts of US$135 million, US$36 million and US$27 million, respectively. These loans were amended in August and September 2001 to increase the maximum total debt to earnings before interest, income tax, depreciation and amortization, or EBITDA ratio that PLDT on a non-consolidated basis is permitted to maintain during the terms of the respective loans. Approximately US$80 million of these loans was outstanding as of September 30, 2004. The FMO loan will mature on September 1, 2007, and the EKN and ECGD loans on December 31, 2007.

Multicurrency Refinancing Facility

On September 4, 2002, PLDT signed a loan agreement with a syndicate of banks for a US$145 million syndicated multicurrency term loan facility consisting of Japanese yen and U.S. dollar commitments of JP¥10,914 million and US$53 million, respectively. This facility was split into two tranches. Tranche A was drawn on June 18, 2003 in the amount of JP¥7,723 million and US$34 million to refinance a portion of the outstanding principal balance of the Japanese yen syndicated term loan which matured on the same date. Tranche B was drawn on December 22, 2003 in the amount of JP¥3,191 million and US$19 million to refinance a portion of US$52 million principal amount outstanding under the U.S. dollar term loan which matured on the same date. US$44 million and JP¥9,095 million of this loan are outstanding as of September 30, 2004. This syndicated facility is amortized semi-annually beginning June 2004 and will mature in December 2006.

US$12 Million Term Loan Facility

On May 29, 2003, PLDT obtained a US$12 million term loan facility from DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH, of which US$8 million (Php463 million) was drawn as of September 30, 2004. This loan is amortized semi-annually beginning June 2004 in the amount of US$1 million each amortization. US$7 million of this loan is outstanding as of September 30, 2004. The US$4 million undrawn portion of the US$12 million term loan facility was cancelled pursuant to a request by PLDT to DEG effective September 26, 2004.

JBIC 4 Program of the Development Bank of the Philippines

In connection with the Asia Pacific Cable Network 2 project, PLDT entered into a loan agreement with Citibank, N.A., as facility agent, and a syndicate of banks in the aggregate principal amount of Php1,700 million, of which about Php831 million was outstanding as of September 30, 2004. The loan, which is funded under the JBIC Facility for Private Sector Development of the Development Bank of the Philippines, will mature on October 26, 2005 and since April 2002, is payable in quarterly installments as set forth below:

Quarterly Payment Number	Percentage of Principal Payable on Each Quarterly Payment Date
Payments 1 7	3.500%
Payments 8 11	8.875%
Payments 12 15	10.000%

Covenants

Our debt instruments contain restrictive covenants, including covenants that prohibit us from paying common dividends, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with accounting principles generally accepted in the Philippines, at relevant measurement dates, principally at the end of each quarterly period.

The financial tests under PLDT s debt instruments, as amended, include maintaining a positive tangible net worth and compliance with the following ratios:

- interest coverage ratio, calculated on a non-consolidated basis and excluding PLDT s equity share in net earnings or losses of investees, of not less than 180% or 200%;

- total debt to EBITDA on a non-consolidated basis of not more than 4.5:1 from September 30, 2004 to December 31, 2004 and not more than 4.0:1 from March 31, 2005 and thereafter;

- long-term indebtedness to appraised value of equity/tangible net worth on a non-consolidated basis ranging from not more than 1.5:1 to not more than 3.0:1;

- current ratio on a non-consolidated basis, ranging from not less than 0.9:1 to not less than 1.1:1;

- debt service coverage ratio on a non-consolidated basis of at least 1.1:1; and

- debt to free cash flow ratio on a non-consolidated basis of not more than 5.0:1 from September 30, 2004 to June 30, 2005, not more than 4.5:1 from September 30, 2005 to June 30, 2006, and not more than 4.0:1 from September 30, 2006 onwards.

In addition, some of PLDT s debt instruments contain covenants requiring PLDT to comply with specified financial tests on a consolidated basis calculated in conformity with accounting principles generally accepted in the Philippines except that accounts relating to Piltel are to be accounted for on the basis of equity accounting. These include:

- total debt to EBITDA of not more than 4.5:1 in 2004 and not more than 4.0:1 in 2005 and thereafter; and

- long-term debt to appraised value of equity/tangible net worth of not more than 2.33:1 to not more than 3.0:1.

We have complied with all of our maintenance ratios as required under our loan covenants and other debt instruments. In addition, we are required to comply with the following ratios for the incurrence of capital expenditures in excess of US$10 million and incurrence of indebtedness:

- long-term indebtedness to appraised value of equity/tangible net worth on a non-consolidated basis of not more than 1.1:1 and on a consolidated basis of not more than 2.33:1;

- current ratio on a non-consolidated basis of not less than 1.2:1 and on a consolidated basis of not less than 0.9:1; and

- interest coverage ratio on a non-consolidated and consolidated basis of not less than 200%.

For purposes of deriving appraised value of equity/tangible net worth, we determined the revaluation surplus in respect of PLDT s properties. PLDT s properties in service as of December 31, 1997 were reappraised by an independent firm of appraisers to reflect their sound value, as part of NTC s financial reporting requirements, based on the December 29, 1997 exchange rate of Php40.116 to US$1.00. As of December 31, 1997, the sound value was Php225,966 million and the revaluation surplus was Php82,723 million. This reappraisal was approved by the NTC on January 28, 2000 under NTC Case No. 98-183. As of September 30, 2004 and December 31, 2003, the revaluation surplus on PLDT s 1997 appraised properties still in service, net of a 5% disallowance factor, amounted to Php33,558 million and Php38,441 million, respectively.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expenses. Since approximately 98% of PLDT s total debt is denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the peso. As of September 30, 2004, the peso depreciated by 1% to Php56.276 to US$1.00, from Php55.586 to US$1.00 as of December 31, 2003. The peso has been subjected to significant fluctuations. In 2003, the peso depreciated to Php55.075 to US$1.00 on March 12, 2003 then recovered to a high of Php52.021 to US$1.00 on May 8, 2003 only to depreciate again to a low of Php55.767 to US$1.00 on November 27, 2003. During the first nine months of 2004, the peso appreciated to a high of Php55.142 on January 6, 2004 but depreciated to a low of Php56.429 on March 22, 2004.

PLDT s ability to maintain compliance with financial covenant requirements measured on a non-consolidated basis is principally affected by the performance of its fixed line business. PLDT cannot be assured of the benefit of net revenues and cash flows generated by Smart and PLDT s other investees in assisting in complying with non-consolidated covenants. Further, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants or be unable to incur new debt. Under some of our loan agreements, certain of our financial ratios will continue to become more restrictive as the loans near maturity. Inability to comply with our financial ratios and covenants could result in a declaration of default and acceleration of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

Under PLDT s loan agreements that require maintenance of an interest coverage ratio of at least 180%, interest coverage ratio is the ratio of (x) our after-tax net income for the 12 months immediately preceding the calculation date after: (a) adding back interest charges, depreciation, amortization and other non-cash charges (including equity share in net earnings or losses of investees but excluding provision for doubtful accounts) and provision for income taxes,

and (b) deducting capitalized subscriber acquisition costs, to (y) the estimated aggregate interest charges payable during the 365-day period following the calculation date on all of PLDT s indebtedness outstanding on such calculation date.

Under PLDT s loan agreements that require maintenance of an interest coverage ratio of at least 200%, interest coverage ratio is the ratio of (x) our after-tax net income after adding back reserves for higher plant replacement costs, income taxes, interest charges, depreciation, amortization and non-cash charges (including equity share in net earnings or losses of investees and provision for doubtful accounts) during 12 consecutive months within the 15 calendar months immediately preceding the calculation date, to (y) the sum of (a) the estimated aggregate interest charges on all indebtedness, net of interest capitalized to construction, plus (b) dividends on mandatorily redeemable preferred stock, in each case scheduled to be paid during the 12 months following the calculation date.

Non-consolidated total debt to EBITDA is the ratio of (x) PLDT s total indebtedness (not including amounts payable by PLDT to Piltel under the LOS) to (y) net income for the preceding 12 months, after adding back interest accrued on all indebtedness, depreciation, amortization and other non-cash charges (including equity share in net earnings or losses of investees, but excluding provision for doubtful accounts) and provision for income taxes and deducting any capitalized subscriber acquisition costs.

Non-consolidated long-term indebtedness to appraised value of equity (or under some covenants, to tangible net worth) is the ratio of (x) PLDT s aggregate indebtedness (or portion of such indebtedness) due more than one year following the calculation date and par value of all mandatorily redeemable preferred stock to (y) the sum of the aggregate par value of all of PLDT s outstanding common and Convertible Preferred Stock (other than preferred stock subject to mandatory redemption), paid-in capital in excess of the par value of such stock, PLDT s retained earnings, reserve for higher plant replacement costs and revaluation increment arising from independent certified appraisals of PLDT s telephone plant approved by the NTC.

Non-consolidated current ratio is the ratio of (x) non-consolidated current assets to (y) non-consolidated current liabilities, excluding from current liabilities 50% of the portion of long-term indebtedness due within one year of the calculation date.

Debt service coverage ratio is the ratio of (x) PLDT s cash flow from operations after adding back interest charges (to the extent previously deducted) plus (1) dividends received from investees, cash received upon any redemption of redeemable preferred stock issued by Smart, any cash received under PLDT s Subscriber Investment Plan, or SIP, and interest income received less (2) capital expenditures (excluding capitalized interest) and investments in investees for the 12 months immediately preceding the calculation date plus (3) PLDT s closing cash balance as of the last day of the calculation date to (y) the sum of the projected interest charges and principal debt repayments (excluding debt to be repaid with a refinancing facility) during the 12 months following the calculation date.

Debt to free cash flow ratio is the ratio of (x) PLDT s debt less PLDT s closing cash balance of the last day of the calculation period to (y) PLDT s cash flow from operations after adding back interest charges (to the extent previously deducted) plus (1) dividends received from investees, cash received upon any redemption of redeemable preferred stock issued by Smart, any cash received under PLDT s SIP and interest income received less (2) capital expenditures (excluding capitalized interest) and investments in investees for the 12 months immediately preceding the calculation date.

PLDT s debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT s ability to take certain actions without lenders approval, including:

- incurring additional indebtedness;
- prepaying other debt;
- making investments;
- extending loans;
- extending guarantees or assuming the obligations of other persons;
- paying dividends or other distributions or redeeming, repurchasing or otherwise acquiring shares of PLDT s capital stock;
- disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth;
- entering into management contracts providing for the management of its business or operations by a third party;
- creating any lien or security interest;

- permitting set-off against amounts owed to PLDT;
- merging or consolidating with any other company;
- entering into transactions with stockholders and affiliates; and
- entering into sale and leaseback transactions.

Under the indenture of PLDT s 10.625% Notes due 2007 and 11.375% Notes due 2012, PLDT is required to comply with a number of additional covenants, including covenants that, subject to certain exceptions, restrict PLDT s ability to (a) incur debt unless its ratio of debt to EBITDA (calculated on a non-consolidated basis based on definitions provided in the same indenture, except under certain circumstances), after giving effect to the incurrence of such debt, would be less than 5.0 to 1 from January 1, 2004 to December 31, 2004 and 4.5 to 1 thereafter and (b) pay dividends, repurchase or redeem its capital stock, make investments and prepay subordinated debt, among other things. Subject to certain exceptions, these covenants also restrict our ability to sell assets and to use the proceeds of these asset sales.

Under the terms of the US$149 million facility with KfW, PLDT is prohibited from paying any dividends on common stock until after December 31, 2004. In addition, under the terms of PLDT s US$145 million multicurrency term facility agreement and JP¥5,615 million syndicated term loan facility, PLDT is restricted from distributing dividends to common stockholders unless (i) no default has occurred which is continuing, and (ii) its debt to free cash flow ratio, after giving effect to the distribution of such dividends and, under certain circumstances, other adjustments to PLDT s closing cash balance, would be less than 4.0:1. Under other loan agreements, PLDT may not declare or pay dividends on any of its capital stock without the prior written consent of the lenders (i) if PLDT is in default in the payment of any amounts due and payable under such loan agreement or after the occurrence and during the continuance of any other event of default or potential event of default under such agreements, (ii) if after giving effect to such action the current ratio would be less than 1.2:1 or (iii) in an amount greater than PLDT s net income after taxes during the fiscal year to which such payment or distribution relates.

In case of a change in control of PLDT, PLDT may be required to repurchase or prepay certain indebtedness. Under the terms of the 10.625% Notes due 2007 and 11.375% Notes due 2012, we are required to offer to purchase all outstanding notes due 2007 and notes due 2012 for cash at a price of 101% of their principal amounts plus accrued interest in the event that (a) the aggregate of NTT Communications and First Pacific s direct and indirect voting interest in PLDT s outstanding capital stock having voting rights falls below 35% of such capital stock and (b) any person or, in certain instances, group of persons, which is not controlled directly or indirectly by First Pacific or NTT Communications acquires a direct or indirect voting interest in PLDT s outstanding capital stock having voting rights which equals or exceeds 35% of such capital stock and (c) if a rating agency at such time maintains a rating on either series of notes, the rating agency downgrades its credit rating on the series within 90 days (or more, in certain circumstances) following notice of the occurrence of the events specified in (a) and (b) above.

Under the terms of PLDT s JPY9,760 million loan from JBIC, in the event of any proposed sale or transfer of PLDT s stock that would result in NTT Communications holding less than 14.95% of PLDT s voting stock, we will be required to prepay, immediately upon effectiveness of such sale or transfer, all principal outstanding under the loan, together with accrued interest. However, prepayment will not be required if, following such sale or transfer, (a) NTT Communications continues to have prior approval rights with respect to all matters as to which NTT Communications has approval rights under the stock purchase agreement pursuant to which it acquired its shares in PLDT or (b) JBIC, in its sole discretion, determines that NTT Communications participation in the expansion of Smart s GSM network capacity to extend PLDT s cellular business in Smart would not be reduced below its level of participation as of the date of the loan agreement.

Under the terms of both PLDT s US$145 million multicurrency term facility agreement and JPY5,615 million syndicated term loan facility, if any lender so requests in writing, PLDT shall prepay in full such lender s participation in the loan within 45 days from notification of the change in control and no later than the date on which PLDT is required to repurchase its 10.625% Notes due 2007 and 11.375% Notes due 2012 (Bonds) from bondholders accepting the change in control offer. A change in control is deemed to occur when (a) the aggregate of NTT Communications and First Pacific s direct and indirect voting interest in PLDT s outstanding capital stock having voting rights falls below 35% of such capital stock and (b) any person or, in certain instances, group of persons, which is not controlled directly or indirectly by First Pacific or NTT Communications acquires a direct or indirect voting interest in PLDT s outstanding capital stock having voting rights which equals or exceeds 35% of such capital stock and (c) if a rating agency at such time maintains a rating on the Bonds, the rating agency downgrades its credit rating on the Bonds within 90 days (or more, in certain circumstances) following notice of the occurrence of the events specified in (a) and (b) above.

PLDT s debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include:

- cross-defaults and cross-accelerations that permit a lender to declare a default if PLDT is in default under another debt instrument; in some cases, the cross-default provision is triggered upon a payment or other default permitting the acceleration of PLDT s debt, whether or not the defaulted debt is accelerated. In other cases, the cross-default provision requires the defaulted loan to be accelerated. In some debt instruments, the cross-default provision will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments;

- failure by PLDT to meet certain financial ratio covenants referred to above;

- the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT s ability to perform its obligations under its debt instrument with the lender;

- the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender;

- the abandonment, termination or amendment of the project financed by a loan in a manner unacceptable to the lender;

- the nationalization or sustained discontinuance of all or a substantial portion of PLDT s business; and

- other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart

Smart s non-consolidated long-term debt consists of:

	September 30, 2004 (Unaudited)		December 31, 2003 (Audited)	
	(in millions)			
U.S. Dollars term loans	**US$590**	**Php33,203**	US$361	Php20,053
Philippine Pesos term loans				533
		33,203		20,586
Less unamortized discount		**7,369**		
		25,834		20,586
Less current portion		**7,512**		7,104
		Php18,322		Php13,482

Smart s bank loan facilities, which are being used to finance its purchases of telecommunications equipment, are availed of through one or more drawdowns.

US$224 Million Term Loan Facilities

The loan facilities for Phases 1 to 4 of the GSM network expansion, under which US$56 million was outstanding as of September 30, 2004, are repayable in ten equal semi-annual installments with final repayments due in October 2005 and April 2006.

US$195 Million Term Loan Facility

On June 8, 2001, Smart signed its GSM Phase 5A financing comprised of US$195 million loans. The US$195 million loans, of which US$85 million was outstanding as of September 30, 2004, are payable over five to six years, with final repayments due in September 2006, March 2007 and June 2007.

Php1 Billion Term Loan Facility

On June 14, 2001, Smart signed its GSM Phase 5A financing of Php1,000 million term loan. The outstanding balance under this facility of Php467 million was prepaid on June 28, 2004.

US$6 Million Term Loan Facility

On September 25, 2001, Smart obtained a US$6 million term loan facility from Electro Banque S.A., which was later on assigned to Alcatel SVF 1999A-Trust fee effective December 3, 2002. The loan facility, of which US$2 million was outstanding as of September 30, 2004, is payable semi-annually, with final repayment due in May 2005.

US$11 Million Term Loan Facility

On October 26, 2001, Smart obtained a US$11 million term loan facility from Credit Lyonnais S.A., of which the undrawn balance of US$4 million was cancelled upon expiry of the availability period on April 26, 2003. The loan facility, comprised of three tranches, of which US$4 million was outstanding as of September 30, 2004, is payable semi-annually with final repayments due in January 2007, November 2007 and May 2008.

US$100 Million Term Loan Facility

On December 13, 2001, Smart signed its GSM Phase 5B financing of US$100 million, of which US$41 million was outstanding as of September 30, 2004. The loan is payable over five years with final repayment due in September 2006.

Php300 Million Term Loan Facility

On January 9, 2002, Smart signed a loan facility in the amount of Php300 million. On November 4, 2003, Smart paid in full the outstanding balance on this loan facility of Php280 million.

US$7 Million Term Loan Facility

On April 14, 2002, for the purpose of financing the purchase of certain equipment, Smart obtained a US$7 million term loan facility from Bayerische Hypo-und Vereinsbank Aktiengesellschaft pursuant to the standard loan agreement No. 1 dated August 14, 2002 under the 50 million Framework Agreement for the financing of individual export contracts dated November 8 and 13, 2001. The loan, which has an outstanding balance as of September 30, 2004 of US$4 million, is payable semi-annually with final repayment due in September 2007.

US$100 Million Term Loan Facility

On November 28, 2002, Smart signed a US$100 million term loan facility supported by NEXI, of which US$60 million was drawn on November 28, 2003. Smart availed of the US$40 million remaining balance on April 5, 2004. This loan is payable semi-annually over four years in eight equal installments starting May 28, 2004 with final repayment due in November 2007. Outstanding balance as of September 30, 2004 is US$88 million after the first repayment in May 28, 2004.

Facilities under GSM Phases 1 to 4, the Finnish Export Credit plc tranche of GSM Phase 5A facility and GSM Phase 5B facility are covered by guarantees from Finnvera, the Finnish export credit agency, for 95% of political risk and 50% of commercial risk. The NEXI Supported Untied term loan facility is covered by NEXI for 97.5% of political risk and 50% of commercial risk.

US$283 Million Term Loan Facility (Debt exchange facility of Piltel)

On July 2, 2004, Smart closed the Piltel debt exchange transaction. Approximately US$289 million, or 69.4%, in the aggregate of the outstanding restructured Piltel debt were exchanged by Piltel creditors for Smart debt. Smart paid cash of US$1.5 million (Php84 million) and issued new debt of US$283.3 million at fair value of Php8,390 million, net of debt discount amounting to Php7,464 million. As of September 30, 2004, unamortized discount amounted to Php7,369 million.

The breakdown of the total amount of Smart debt issued to participating Piltel creditors are as follows:

- 2007 Facility for US$0.2 million payable in full in December 2007;
- 2008 Facility for US$2.9 million payable in full in December 2008; and
- 2014 Facility for US$280.1 million payable in full in June 2014.

Interest for the above facilities are payable every quarter at a floating rate of three months US$ LIBOR + 1.00% for the 2007 and 2008 facilities, and a fixed rate of 2.25% per annum for the 2014 facility. Furthermore, a portion of the 2014 facility amounting to US$144 million has a variable yield option whereby the creditor has an option to elect for an early repayment at a discount either in December 2007 at 52.5% of the relevant debt amount or in December 2008 at 57.5% of the relevant debt amount.

US$104 Million Term Loan Facility

On September 13, 2004, Smart signed a US$104 million 5-year term loan facility supported by Finnish Export Credit Plc as the Lender of Record with ABN AMRO Bank, Banque National de Paribas, Calyon, DBS Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers. The full amount of the facility will be drawn in November 2004. The loan will be payable over five years in ten equal payments starting May 2005 with final repayment in November 2009.

Interest on Smart s dollar-denominated loans is either fixed or based on LIBOR plus premium.

Smart is subject to loan covenants that restrict its ability to pay dividends, redeem preferred stock, make distributions to PLDT or otherwise provide funds to PLDT or any affiliate without the consent of its lenders. Some of these covenants contain an absolute prohibition on paying dividends before December 31, 2002, while others require that a portion of the loan equal to the amount of the dividend be prepaid. After receiving approvals from Finnvera and certain lenders, Smart paid dividends in the amount of Php4,300 million to PLDT in June 2003, representing 70% of Smart s 2002 net income and Php1,866 million in November 2003, equivalent to the remaining 30% of Smart s 2002 net income. On May 26, 2004, after having obtained the relevant waivers from Finnvera and certain of its lenders,

Smart paid a dividend of Php11,280 million to PLDT, equivalent to 70% of Smart s 2003 net income. Similar waivers have already been obtained by Smart to pay a dividend representing the 30% balance of Smart s 2003 net income equivalent to Php4,820 million in the fourth quarter of 2004.

Smart s debt instruments also contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. The financial tests under Smart s loan agreements include compliance with a debt-to-equity ratio of not more than 1.50:1 and a debt service coverage ratio of not less than 1.50:1. Smart has maintained compliance with all of its financial covenants. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include:

- cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated;

- failure by Smart to comply with certain financial ratio covenants;

- any reduction in PLDT s ownership of Smart s shares below 51% of the total of each class of Smart s issued shares;

- any reduction in First Pacific s and Metro Pacific Corporation s collective direct and/or indirect ownership of PLDT s common stock below 17.5% of the total common stock outstanding or 17.5% of the voting power of the total common stock outstanding; and

- the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart s ability to perform its obligations under its loan agreements with the lender or that the lender believes materially impairs an applicable guarantors ability to perform its obligations under an applicable guaranty.

In addition, some of these loan agreements restrict Smart s ability to enter into transactions with affiliates except on arm s-length terms and for valuable consideration.

Piltel

On June 4, 2001, Piltel completed the restructuring of approximately Php41 billion of indebtedness and other claims owed to banks, trade creditors, bondholders and preferred shareholders, representing 98% of its total liabilities as of that date.

As a result of the restructuring:

a. 50% of the financial debt of each participating creditor was released in consideration for the allotment of Piltel Class I Series K Convertible Preferred Stock. One (1) Piltel Class I Series K Convertible Preferred Stock was exchanged for every Php340 worth of debt for which it is being exchanged (converted into Pesos at an exchange rate of Php47.05 = US$1.00 for dollar-denominated debt and Php1.00 = JP¥2.39522 for yen-denominated debt), which shares were immediately and mandatorily converted into PLDT Convertible Preferred Stock. One PLDT Series V, VI or VII convertible preferred share was issued for every five (5) Piltel Class I Series K Convertible Preferred Stock. See *Note 14 Preferred Stock Subject to Mandatory Redemption* for the terms of the Piltel Class I Series K Convertible Preferred Stock.

b. Approximately half of the remaining 50% of all participating creditors (except for bondholders and preferred shareholders) financial debt became their participation in a Tranche B Loan in the same currency as their previous financial debt and the other half became their participation in a Tranche C Loan also in the same currency as their previous financial debt. In the case of bondholders and preferred shareholders, the remaining 50% of their financial debt became a participation in the Conversion Notes Facility and in a single Tranche Peso loan (the Term Notes Facility), respectively.

On July 2, 2004, Smart acquired from Piltel s creditors US$289 million or 69.4% of Piltel s total outstanding restructured debt at that time, in exchange for US$283.3 million in new debt of Smart and US$1.5 million in cash. A gain on debt exchange transaction amounting to Php4,419 million was recognized in our consolidated statement of income representing the difference between the fair value of Piltel s debt cancelled and/or exchanged to Smart s debt amounting to Php12,893 million (net of debt discount of Php3,359 million) and Smart s consideration for the debt exchange including cash of Php84 million (US$1.5 million) and fair value of newly issued debt amounting to Php8,390 million (net of debt discount of Php7,464 million). This portion of Piltel s debt has been eliminated in consolidation as of September 30, 2004.

Piltel s residual long-term debt to third parties consists of:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in millions)	
Restructured debts		
Philippine Pesos		

10 year Tranche B		**Php241**		Php2,166
15 year Tranche C		**241**		2,166
15 year Term Notes Facility				294
		482		4,626
U.S. Dollars				
10 year Tranche B	**US$10**	**547**	US$35	1,932
15 year Tranche C	**10**	**547**	35	1,932
15 year Conversion Notes Facility	**99**	**5,600**	122	6,768
	US$119	**6,694**	US$192	10,632
Japanese Yen				
10 year Tranche B	**JPY**		JPY7,822	4,062
15 year Tranche C			7,822	4,062
	JPY		JPY15,644	8,124
Total		**7,176**		23,382
Less unamortized discount (Note 2)		**2,073**		5,796
		5,103		17,586
Unrestructured debt				
U.S. Dollars				
Convertible bonds	**US$1**	**52**	US$1	51
Total		**5,155**		17,637
Less current portion		**57**		69
		Php5,098		Php17,568

The following are summaries of the key economic terms relating to the restructuring of the financial debt taking the form of Tranche B Loan, Tranche C Loan, Term Notes Facility and Conversion Notes Facility.

	Tranche B Loans	**Tranche C Loans**	**Term Notes Facility**	**Conversion Notes Facility**
Final maturity	10 years from June 4, 2001	15 years from June 4, 2001	15 years plus 10 days from June 4, 2001	15 years from June 4, 2001
Amortization	Years 1 and 2 0.00%	Years 1 and 2 0.00%	Years 1 and 2 0.00%	Years 1 and 2 0.00%
	Years 3 to 9 0.10%	Years 3 and 4 0.10%	Years 3 to 14 0.10%	Years 3 and 4 0.10%
	Year 10 99.30%	Year 5 2.00%	Year 15 98.80%	Year 5 1.05%
		Years 6 to 14 10.00%		Years 6 to 9 5.05%
		Year 15 7.80%		Year 10 54.65%
				Years 11 to 14 5.00%
				Year 15 3.90%
Interest rate	**Peso facility** Philippines 91-day treasury bill rate, or T-Bill Rate, or the average of the 91-day T-Bill Rate		181-day T-Bill Rate or the average of the 181-day T-Bill Rate and the 6-months PHIBOR, if 6-months PHIBOR is different from the T-Bill Rate by more than 2.50%, plus 1.00% p.a.	LIBOR for three-month deposits plus 1.00% p.a.

	and the 90-day Philippine inter-bank offered rate, or PHIBOR, if 90-day PHIBOR is different from the T-Bill Rate by more than 2.50%, plus 1.00% p.a. **U.S. dollar facilities** London interbank rate for U.S. dollar deposits, or LIBOR, for three-month U.S. dollar deposits plus 1.00% p.a. **Yen facility** LIBOR interbank rate for Yen deposits for three-month deposits plus 1.00% p.a.		
Interest payment dates	Quarterly in arrears	Semi-annually	

Under the terms of the restructuring, PLDT issued a LOS for the benefit of Piltel and its creditors under which PLDT has agreed to cover any funding shortfalls of Piltel up to a maximum amount of US$150 million less all amounts paid or committed to be paid to or on behalf of Piltel or any of its subsidiaries or affiliates on or after March 23, 2000. Under the LOS, PLDT shall provide funding to Piltel in the event that the cash flow from Piltel s operations fall short of the amount required by it to discharge in full its obligations to any creditor of Piltel and all its operating and financing subsidiaries and affiliates. As of September 30, 2004, the undrawn balance available under the PLDT LOS is US$50 million (December 31, 2003 US$50 million) due to prior investments made from March 23, 2000 to September 30, 2004 aggregating to US$100 million through PLDT s subscription to Class I Series J preferred shares of Piltel.

Piltel s restructured obligations are secured by substantially all present and future assets of Piltel under the Mortgage Trust Indenture, or MTI, dated June 4, 2001 between Piltel and Chase Manhattan Bank as security agent for the creditors, which established the security arrangements relating to the restructured debts. The participating creditors (other than the participating holders of the Peso Term Note Facility) will share equally in first ranking security, while non-participating creditors and the participating holders of the Peso Term Note Facility will share equally in second ranking security created under the MTI. Such mortgage was approved by at least two-thirds of Piltel s stockholders at its annual meeting on April 18, 2001 and the NTC on May 18, 2001.

Piltel likewise agreed to pay into a dedicated account (a Sinking Fund Account) the amount by which (a) earnings before interest, tax, depreciation and amortization for a financial year is greater than (b) 200 percent of the projected debt service costs and permitted capital expenditure for the following financial year (the Excess Cashflow). The money in that Sinking Fund Account will be used (before drawings are made under the LOS) to fund cash flow deficiencies of Piltel. Also, if actual capital expenditure for a financial year differs from the projected capital expenditure, Piltel will either pay into the Sinking Fund Account established at the end of that year an amount equal to any over-projection of capital expenditure or will be entitled to withdraw funds, if any, equal to any under-projection. Any credit balance in a Sinking Fund Account after two financial years will be used to prepay all participating creditors ratably.

Piltel has undertaken, with respect to each financial year (other than the financial year in which the final repayment installment for Tranche B falls due), that the aggregate of earnings before interest, tax, depreciation and amortization plus the available amount under the LOS shall be greater than 1.05 times debt service and 1.5 times interest cost.

In 2002, holders of Piltel s Class II Series B preferred stock and convertible bonds with aggregate amounts of Php102 million (including accrued dividend of Php20 million up to June 4, 2001) and US$8 million (including accretion costs up to June 4, 2001), respectively, agreed to participate in the debt restructuring plan. Consequently, 50 percent of the redemption amounts were released in exchange for: (1) 150,500 Piltel Class I Series K Convertible Preferred Stock which were then exchanged for 30,100 PLDT Series V Convertible Preferred Stock, in respect of the preferred stock; and (2) 532,500 Piltel Class I Series K Convertible Preferred Stock which were then exchanged for 106,500 PLDT Series VI Convertible Preferred Stock, in respect of the convertible bonds. The remaining 50%of the redemption amounts were exchanged for a participation in the Term Notes Facility and Conversion Notes Facility for the holders of Piltel s preferred stock and convertible bonds, respectively.

In 2003, holders of Piltel s convertible bonds and bank debt with aggregate amounts of US$1 million (including accretion costs up to June 4, 2001) and US$6 million, respectively, agreed to participate in the debt restructuring plan. Consequently, 50 percent of the redemption amounts were released in exchange for: (1) 92,475 Piltel Class I Series K Convertible Preferred Stock which were then exchanged for 18,495 PLDT Series VI Convertible Preferred Stock, in respect of the convertible bonds; and (2) 430,400 Piltel Class I Series K Convertible Preferred Stock which were then exchanged for 86,080 PLDT Series VI Convertible Preferred Stock, in respect of the bank debt. The remaining 50% of the redemption amounts were exchanged for a participation in the Conversion Notes Facility and U.S. Dollar Facility for the holders of convertible bonds and bank debt, respectively.

As of September 30, 2004, Piltel is not in compliance with the terms of convertible bonds with principal amount of US$0.7 million (approximately US$0.9 million redemption price at the option of the holders).

Piltel may not be able to restructure or otherwise pay the claims of its unrestructured debt. However, default on and acceleration of Piltel s unrestructured indebtedness does not create a cross-default under Piltel s restructured indebtedness or any indebtedness of PLDT or Smart.

If Piltel s non-participating creditors take forceful measures to enforce their claims, it is possible that Piltel would be required to submit to a court-supervised rehabilitation proceeding or an involuntary insolvency proceeding seeking liquidation. All of Piltel s creditors that participated in the debt restructuring agreed that they would submit Piltel to a rehabilitation proceeding in those circumstances and petition for the adoption of a plan of rehabilitation that includes the financial terms of the debt-restructuring plan. However, the laws and procedures governing a rehabilitation proceeding in the Philippine courts remain untested in significant respects. It cannot be assured that a rehabilitation plan which incorporates the financial terms of the debt-restructuring plan would be adopted promptly or at all. Even if such a rehabilitation plan was adopted, it cannot be assured that Piltel would prove to be financially viable afterwards.

Mabuhay Satellite

Mabuhay Satellite s long-term debt consists of:

	September 30, 2004 (Unaudited)		December 31, 2003 (Audited)	
	(in millions)			
U.S. Dollars				
Credit Agreement	**US$31**	**Php1,761**	US$42	Php2,319
Omnibus Agreement	**41**	**2,298**	43	2,404
	72	**4,059**	85	4,723
Less current portion	**13**	**711**	13	713
	US$59	**Php3,348**	US$72	Php4,010

Credit Agreement

Mabuhay Satellite has an existing Credit Agreement with the Ex-Im Bank to finance a portion of the cost of purchasing the Agila II Satellite. In 2003, Ex-Im Bank approved, in principle, the re-profiling of Mabuhay Satellites s US$31 million debt with them by extending the maturity of the loan by 1 and ½ years to July 15, 2007 and reducing the interest rate by 1%, to 5.6% from 6.6%. The revised repayment terms have been approved by the majority of the local creditor banks.

Omnibus Agreement

Mabuhay Satellite also has an existing Omnibus Agreement with a syndicate of local banks, or the Banks, which includes issuance of irrevocable standby Letters of Credit with an aggregate stated value not exceeding US$31 million (Php1,761 million) in favor of Ex-Im Bank, as security under the Credit Agreement and a term loan to Mabuhay

Satellite in the aggregate amount of US$41 million
(Php2,362 million), which will mature on various dates from 2004 to 2007.

As security, Mabuhay Satellite has constituted in favor of the Banks:

- A first mortgage on its leasehold rights under a lease agreement entered into with the Subic Bay Metropolitan Authority, or SBMA, and the components of the satellite system;

- An assignment of its rights under its purchase contract for the satellite system;

- An assignment of its rights under the transponder lease contracts to be entered into with its shareholders and other parties and the revenues therefrom; and

- An assignment of the applicable proceeds of insurance to be taken on the satellite system.

The Credit and Omnibus Agreements impose negative covenants which, among others, restrict material changes in Mabuhay Satellite s nature of business and ownership structure, any lien upon or with respect to any of its assets or to any right to receive income, acquisition of capital stock, declaration and payment of dividends, merger, consolidation and sale with another entity and incurring or guaranteeing additional long-term debt beyond prescribed amounts.

ePLDT

Php150 Million Term Loan Facility

On March 4, 2002, ePLDT entered into a three-year loan facility with Philippine Bank of Communications amounting to Php150 million with a grace period of one year. The loan facility was fully drawn on December 31, 2002. The quarterly principal payments of Php15 million started in June 2003 with a balloon payment of Php45 million in March 2005. Interest on this loan is equivalent to 91-day T-bill rate plus 4% per annum payable quarterly in arrears. The loan is secured by ePLDT s investment in an associate with a carrying value of Php616 million as of September 30, 2004 and a deed of assignment of receivables of a subsidiary from a foreign customer. As of September 30, 2004, the outstanding balance of this loan amounted to Php60 million, of which Php45 million will mature in 2005.

The loan agreement imposes negative covenants which, among other things, restrict ePLDT in regard to payment of cash dividends or any other income of any capital distribution to PLDT, voluntary suspension of its entire business operations for a period of 60 consecutive days of dissolution of its legal existence, and creation of any encumbrances on the shares pledged.

Php100 Million Term Loan Facility

On March 15, 2004, ePLDT entered into another three-year term loan facility with Asia United Bank amounting to Php100 million for the payment of its outstanding short-term bank loan facility and for other working capital requirements. Php100 million was drawn from the facility and remained outstanding as of September 30, 2004. The loan shall be repaid in nine equal quarterly installments starting March 2005 and will end in March 2007. Interest on the loan is equivalent to 90-day PHIBOR plus 3% per annum payable quarterly in arrears. The loan is secured by a Mortgage Trust Indenture Agreement on a parcel of land with a carrying value of Php279 million as of September 30, 2004.

The loan agreement also imposes special covenants which, among other things, restrict ePLDT in regard to payment of cash dividends or any other income of any capital distribution to PLDT, voluntary suspension of its entire business operations for a period of 60 consecutive days, dissolution of its legal existence, and creation of any encumbrances on the shares and property pledged.

The loan agreement also requires ePLDT to comply with specified financial ratios and other financial tests at quarterly measurement dates. The financial tests under the agreement include, among others, compliance with a current ratio of not less than 1:1, an interest coverage ratio of not less than 1.5:1, debt to equity ratio of not more than 1.50:1, and a debt service coverage ratio of not less than 1.1:1. The agreement also contains customary and other default provisions that permit the lender to accelerate amounts due under the loan or terminate their commitments to extend additional funds under the loan. As of September 30, 2004, ePLDT has complied with all of its financial covenants.

Vocativ

Php149 Million Term Loan Facility

As of September 30, 2004, Vocativ, a wholly-owned call center of ePLDT, had an outstanding 5-year term loan facility of Php149 million with Asia United Bank for the payment of its additional capital expenditures and working capital requirements. The loan shall be repaid in fourteen equal quarterly installments starting March 2006 and will end in July 2009. Interest on the loan is equivalent to 90-day PHIBOR plus 3% per annum payable quarterly in arrears. The loan is secured by a Mortgage Participation Certificate against the Mortgage Trust Indenture Agreement between ePLDT, Inc. and Asia United Bank Corporation Trust and Investments Group dated March 15, 2004 on a

parcel of land, which excludes the buildings and improvements.

Maratel

Maratel s long-term debt consists of a Php60 million loan obtained on October 20, 1997 and a Php19 million loan drawn on July 19, 1999. The Php60 million loan carries an interest rate ranging from 11.5% to 11.7% per annum and will mature on October 16, 2005, while the Php19 million loan bears a fixed interest rate of 14.7% per annum and will mature on various dates until November 15, 2004. As of September 30, 2004, the outstanding balances of these loans totaled Php14 million, of which Php3 million will mature in 2004.

13. Deferred Credits and Other Noncurrent Liabilities

This account consists of:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Liabilities from derivative transactions (Note 24)	**4,556**	2,591
Provision for onerous contract and assessments net of current portion (Notes 11 and 22)	**4,079**	3,632
Accrual of capital expenditures under long-term financing (Note 12)	**2,655**	3,130
Customers deposits	**2,200**	2,177
Advance payment under a receivable purchase facility (Note 4)	**1,692**	2,058
Capital lease liability net of current portion (Notes 7 and 21)	**651**	729
Others	**224**	227
	16,057	14,544

14. Preferred Stock Subject to Mandatory Redemption

The movement of PLDT s preferred stock subject to mandatory redemption follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Beginning balance	**12,735**	10,363
Issuance		160
Conversion		(8)
Accretion	**1,145**	1,318
Revaluation	**(17)**	902
Ending balance	**13,863**	12,735

As of September 30, 2004, PLDT had issued 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for Series K, Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel. Shares of Series V, VI and VII Convertible Preferred Stock are entitled to receive annual dividends of Php18.70 per share, US$0.397 per share and JP¥40.7189 per share, respectively. Each share of Series V, VI and VII PLDT Convertible Preferred Stock is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stock and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted to shares of PLDT s common stock. For 30 days thereafter, the holders of these mandatorily converted common shares have the option to sell such common shares back to PLDT for Php1,700 per share, US$36.132 per share and JP¥4,071.89 per share for Series V, VI and VII, respectively.

PLDT s Convertible Preferred Stock Series V, VI and VII were designated as compound instruments consisting of liability and equity components. The total fair value of the Convertible Preferred Stock Series V, VI and VII was determined at issue date, of which the aggregate fair value of the liability component of the issued Series V, VI and VII Convertible Preferred Stock as of date of issuance is included under the Preferred Stock Subject to Mandatory Redemption account in the consolidated balance sheets. The residual amount was assigned as the equity component.

The difference between the aggregate fair value of the Series V, VI and VII Convertible Preferred Stock at issue date and the aggregate redemption value is accreted over the period up to the call option date using the effective interest rate method. Accretions added to Preferred Stock Subject to Mandatory Redemption and charged to interest for the nine months ended September 30, 2004 and 2003 amounted to Php1,145 million and Php954 million, respectively.

Preferred Stock Subject to Mandatory Redemption amounted to Php13,863 million and Php12,735 million as of September 30, 2004 and December 31, 2003, respectively, after revaluation of Series VI and VII to the exchange rates at balance sheet dates and after giving effect to the above accretions, conversions and additional issuances. As of

September 30, 2004 and December 31, 2003, 706,571 shares and 676,571 shares, respectively, of the Convertible Preferred Stock have been converted into PLDT common shares. The aggregate redemption value of the outstanding Series V, VI and VII Convertible Preferred Stock amounted to Php22,020 million and Php21,898 million as of September 30, 2004 and December 31, 2003, respectively.

The corresponding dividends on these shares charged as interest expense amounted to Php210 million and Php196 million for the nine months ended September 30, 2004 and 2003.

15. Equity

The movement of PLDT s capital account follows:

	Common Stock Php5 par value		**Preferred Stock -** Php10 par value				
			Series				
			A to EE	**III**	**IV**		
	No. of Shares	**Amount**	**No. of Shares**			**Total Preferred Stock**	**Amount**
	(in million shares and pesos)						
Authorized	234	Php1,170				823	Php8,230
Outstanding							
Balance at January 1, 2003	169	Php847	406	5	36	447	Php4,474
Issuance			5			5	52
Conversion			(1)			(1)	(21)
Balance at December 31, 2003 (As restated Note 2)	169	Php847	410	5	36	451	Php4,505
Balance at January 1, 2004	169	Php847	410	5	36	451	Php4,505
Issuance	1	2					5
Conversion			(2)			(2)	(15)
Balance at September 30, 2004 (Unaudited)	170	Php849	408	5	36	449	Php4,495

Preferred Stock

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to EE 10% Cumulative Convertible Preferred Stocks earn cumulative dividends at an annual rate of 10%. After the lapse of one (1) year from the last day of the year of issuance of a particular series of SIP 10% Cumulative Convertible Preferred Stock any holder of such series may convert all or any of the shares of such SIP 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of the Corporation, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there shall have been no such sales on such PSE on any day, the average of the bid and the asked prices of a share of Common Stock of the Corporation at the end of such day on such Exchange, in each such case averaged over a period of thirty (30) consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which as of September 30, 2004, was Php5.00 per share. The number of shares of Common Stock issuable at any time upon conversion of one share of SIP 10% Cumulative Convertible Preferred Stock shall be determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Capital Stock at anytime outstanding shall be subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Capital Stock shall be proportionately decreased or increased, as the case may be and in the case of a stock dividend, such price shall be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Capital Stock. In the event the relevant effective date for any such subdivision or consolidation of shares or stock dividend occurs during the period of thirty (30) trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment shall be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Capital Stock, or in case of any consolidation or merger of the Corporation with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sales price utilized in calculating the conversion price as the Board of Directors, in it sole discretion, shall deem appropriate.

At PLDT s option, the Series A to EE 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

On January 27, 2004, the Board of Directors designated 1 million shares of serial preferred stock as Series EE 10% Cumulative Convertible Preferred Stock for issuance throughout 2004.

The Series III Convertible Preferred Stock earns cumulative dividends at an annual rate of US$3.50 a share payable quarterly, free and clear of Philippine withholding taxes. It is convertible into common stock at the option of the holder at any time, at the conversion price of US$29.19 per common stock (equivalent to a conversion ratio of 1.7129

shares of common stock for each share of Series III Convertible Preferred Stock, each share of Series III Convertible Preferred Stock being valued for this purpose at its reference amount of US$50 a share), subject to adjustment in certain events; and are not redeemable. Upon liquidation of PLDT, holders of the Series III Convertible Preferred Stock will be entitled to receive liquidating distributions equivalent to Php11 per share, plus accrued and unpaid dividends to the date of distribution, subject to the prior rights of creditors.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The provisions of certain subscription agreements involving preferred stock have an effect on the ability of PLDT to, without written consent, sell certain assets and pay cash dividends unless all dividends for all past quarterly dividend periods have been paid and provision has been made for the currently payable dividends.

On January 27, 2004, the Board of Directors approved the dividend declaration of: (a) Php12.29 million on the outstanding shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock payable on March 15, 2004, to the holders of record as of February 17, 2004; and (b) Php1.00 per outstanding share of Series DD 10% Cumulative Convertible Preferred Stock payable on February 27, 2004, to the holders of record as of February 12, 2004 and Series CC 10% Cumulative Convertible Preferred Stock payable on March 31, 2004, to the holders of record as of February 25, 2004. On February 19, 2004, the Board of Directors approved the dividend declaration of: (a) US$1.029412 per outstanding share of Series III Convertible Preferred Stock payable on April 15, 2004, to the holders of record as of March 17, 2004; (b) Php4.675 per outstanding share of Series V Convertible Preferred Stock payable on April 15, 2004, to the holders of record as of March 17, 2004; (c) US$0.09925 per outstanding share of Series VI Convertible Preferred Stock payable on April 15, 2004, to the holders of record as of March 17, 2004; and (d) JPY10.179725 per outstanding share of Series VII Convertible Preferred Stock payable on April 15, 2004, to the holders of record as of March 17, 2004. On May 4, 2004, the Board of Directors approved the dividend declaration of Php12.42 million on the outstanding shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock payable on June 15, 2004, to the holders of record as of May 26, 2004. On June 8, 2004, the Board of Directors approved the dividend declaration of: (a) US$1.029412 per outstanding share of Series III Convertible Preferred Stock, payable on July 15, 2004, to the holders of record as of June 25, 2004; (b) Php4.675 per outstanding share of Series V Convertible Preferred Stock, payable on July 15, 2004, to the holders of record as of June 25, 2004; (c) US$0.09925 per outstanding share of Series VI Convertible Preferred Stock, payable on July 15, 2004, to the holders of record as of June 25, 2004; and (d) JPY10.179725 per outstanding share of Series VII Convertible Preferred Stock, payable on July 15, 2004, to the holders of record as of June 25, 2004. On June 29, 2004, the Board of Directors approved the dividend declaration of Php1.00 per outstanding share of Series A, I, R, W, AA and BB 10% Cumulative Convertible Preferred Stock, payable on August 31, 2004, to the holders of record as of July 28, 2004.

On August 3, 2004, the Board of Directors approved the dividend declaration of: (a) US$1.029412 per outstanding share of Series III Convertible Preferred Stock, payable on October 15, 2004, to the holders of record on September 2, 2004; (b) Php12.42 million on the outstanding shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock payable on September 15, 2004, to the holders of record on August 25, 2004; (c) Php4.675 per outstanding share of Series V Convertible Preferred Stock, payable on October 15, 2004, to the holders of record on September 2, 2004; (d) US$.09925 per outstanding share of Series VI Convertible Preferred Stock, payable on October 15, 2004, to

the holders of record on September 2, 2004; (e) JPY10.179725 per outstanding share of Series VII Convertible Preferred Stock, payable on October 15, 2004, to the holders of record on September 2, 2004; and (f) Php1.00 per outstanding share of Series B, F, Q, V and Z 10% Cumulative Convertible Preferred Stocks, payable on September 30, 2004, to the holders of record on September 1, 2004.

Executive Stock Option Plan

On April 27, 1999 and December 10, 1999, the Board of Directors and stockholders, respectively, approved the establishment of an Executive Stock Option Plan, or ESOP, and the amendment of the Seventh Article of the Articles of Incorporation of PLDT denying the pre-emptive right of holders of common stock to subscribe for any issue of up to 1,289,745 common stock pursuant to the ESOP. The ESOP covers management executives, which include officers with rank of Vice President up to the President, executives with the rank of Manager up to Assistant Vice President, and advisors/consultants engaged by PLDT. The ESOP seeks to motivate option holders to achieve PLDT s goals, reward option holders for the creation of shareholder value, align the option holders interests with those of the stockholders of PLDT and retain the option holders to serve the long-term interests of PLDT. The ESOP is administered by the Executive Compensation Committee of the Board of Directors. About 1.3 million common stock of PLDT have been reserved as underlying shares of options under the ESOP in 1999.

Movements in the number of stock option plan outstanding are as follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Beginning balance	**900,118**	1,226,395
Exercised shares*	**(289,732)**	
Cancelled	**(26,784)**	(326,277)
Ending balance	**583,602**	900,118

* Based on date of payment of exercised shares

Since the date of the grant on December 10, 1999 up to December 31, 2003, there were no officers or executives who exercised their options. Instead, there were cancellations of options due to officer resignations and retirements of officers and executives.

As of September 30, 2004, 289,732 shares were exercised by certain officers and executives at an exercise price of Php814 per share. Of the 289,732 exercised shares, 11,932 shares were unissued as of September 30, 2004.

16. Related Party Transactions

a. Air Time Purchase Agreement between PLDT and AIL and Related Agreements

In March 1997, PLDT entered into a Founder NSP, or National Service Provider, Air Time Purchase Agreement with PT Asia Cellular Satellite (assigned and transferred to AIL), as amended in December 1998, under which PLDT was granted the exclusive right to sell ACeS services in the Philippines. In exchange, the Air Time Purchase Agreement states that PLDT has to purchase from PT Asia Cellular Satellite at least US$5 million worth of air time annually over ten years, commencing on the commercial operations date, which has been set as January 1, 2002. The commercial operations date is defined as the earlier of:

- the day on which PT Asia Cellular Satellite places the Garuda I satellite in commercial operation; and

- the date of final acceptance of the Garuda I satellite and associated equipment under the terms of the Spacecraft Contract, dated August 28, 1995, between PT Asia Cellular Satellite and Martin Marietta Overseas Corporation.

However, the commercial operations date may not occur without the consent of PLDT if there is a constructive total loss or partial loss of the satellite under its launch insurance contract and the satellite cannot provide commercial service in the Philippines.

In the event that PT Asia Cellular Satellite s aggregate billing revenue is less than US$45 million in any given year, the Air Time Purchase Agreement states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

PLDT and the other founder NSPs are endeavoring to amend the Air Time Purchase Agreement due to the occurrence of partial satellite loss, changes in the primary business of ACeS and other events affecting the business.

In March 2003, PLDT, together with the other founder NSPs, entered into a Standstill Agreement with AIL suspending the application and enforcement of the minimum and supplemental air time payments under the original Air Time Purchase Agreement. In lieu of these payments, the parties agreed that AIL shall provide PLDT and the other founder shareholders, with unlimited use of air time for the year 2003 in exchange for a fixed fee in the amount

of US$3.8 million for PLDT. Moreover, PLDT was also obliged to purchase from AIL 13,750 satellite phone units for the year 2003 at US$395 F.O.B. per unit, subject to quarterly price adjustments. The parties to the Standstill Agreement also agreed to negotiate in good faith and use their best efforts to reach an agreement on a revised Air Time Purchase Agreement before November 15, 2003 that will cover, among other matters, the amended minimum and supplemental air time payment provisions subject to the approval of AIL s creditors.

b. Transactions with Major Stockholders, Directors and Officers

Transactions to which PLDT or its subsidiary was a party, in which a director or key officer or owner of more than 10% of the common stock of PLDT, or any member of the immediate family of a director or key officer or owner of more than 10% of the common shares of PLDT had a direct or indirect material interest in PLDT or its subsidiary, as of September 30, 2004 and December 31, 2003 and for the nine months ended September 30, 2004 and 2003 are as follows:

1. Agreements with NTT Communications and/or its Affiliates

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on December 31, 2003, under which NTT Communications provides PLDT with technical, marketing and other consultants for various business areas of PLDT starting April 1, 2000;

- *Domestic Fiber Optic Network Submerged Plant Maintenance Agreement*. On July 4, 2000, PLDT entered into an agreement with NTT World Engineering Marine Corporation, or NTT WEMC, for the submarine cable repair and other allied services for the maintenance of PLDT s domestic fiber-optic network, or DFON, submerged plant for a period of five years up to July 4, 2005. Under the agreement, PLDT shall pay NTT WEMC a fixed annual standing charge of US$2 million, excluding cost for the use of a remotely operated submersible vehicle at US$5,000 for every day of use and repair cost computed at US$19,000 per day of actual repair;

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets managed data and other services under NTT Communications Arcstar brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the tradename Arcstar and its related trademark, logo and symbols, solely for the purpose of PLDT s marketing, promotional and sales activities for the Arcstar services within the Philippines; and

- *Conventional International Telecommunications Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses.

Total fees under these agreements amounted to Php251 million and Php218 million for the nine months ended September 30, 2004 and 2003, respectively. As of September 30, 2004 and December 31, 2003, outstanding obligations of PLDT amounted to Php36 million and Php40 million, respectively.

2. Agreement between Smart and Asia Link B.V., or ALBV. Smart has an existing Technical Assistance Agreement with ALBV for the latter to provide technical support services and assistance in the operations and maintenance of cellular business for a period of five years, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to 2% of the net revenues of Smart. In January 2003, the agreement was amended, reducing the technical service fees to be paid by Smart to ALBV to 1% of net revenues effective January 1, 2003.

Smart also has an existing Services Agreement with ALBV for a period of 25 years starting January 1, 1999, which shall automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period.

ALBV is a subsidiary of the First Pacific Group.

Total fees under these agreements amounted to Php324 million and Php223 million for the nine months ended September 30, 2004 and 2003, respectively. Outstanding obligations of Smart under the Technical Service Agreement amounted to Php192 million and Php228 million as of September 30, 2004 and December 31, 2003, respectively.

3. Agreements relating to insurance companies. Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker s fees are settled between Gotuaco and the insurance companies. Total payments to Gotuaco covering the 12-month period ending December 31, 2004 amounted to Php11 million. A director of PLDT have a direct/indirect interest in or serve as director/officer of Gotuaco.

17. Employees Benefit Plans

PLDT

PLDT has a trustee-managed, non-contributory defined benefit plan, or the Benefit Plan, providing for retirement and death benefits and service terminal pay to substantially all permanent and regular employees. Benefits under the Benefit Plan are based on final salary and length of service.

PLDT s actuarial valuation is done on an annual basis. Based on the latest actuarial valuation dated February 2004, the actuarial present value of accrued liability, net pension cost and average assumptions used in developing the valuation at December 31, 2003:

	(in million pesos)
Actuarial accrued liability	(5,971)
Assets at fair value	3,927
Unfunded actuarial accrued liability	(2,044)
Unrecognized:	
Net transition liability	2,296
Net experience adjustment	1,535
Prepaid pension cost as of December 31, 2003	1,787
Accrual of pension cost	(453)
Contributions	478
Prepaid pension cost as of September 30, 2004	1,812
Less current portion as of September 30, 2004 (Note 6)	605
Noncurrent portion of prepaid pension cost as of September 30, 2004 (Note 9)	1,207

The weighted average assumptions used to determine pension benefits for 2004 are as follows:

	2003
Discount rate	9%
Rate of increase in compensation	7%
Rate of return on plan assets	9%

Net pension cost was computed as follows:

Nine Months

	Ended September 30,	
	2004	2003
	(Unaudited) (in million pesos)	
Normal cost	**263**	234
Interest cost	**24**	20
Amortization of:		
Unrecognized net transition liability	**115**	82
Unrecognized net experience adjustments	**51**	(8)
	453	328

In addition to PLDT s cash contribution in relation to the manpower rightsizing program in June 2003, PLDT contributed to the PLDT BTF its investment in convertible notes of Unilink and a real property in Makati City.

Smart

Smart has a trustee-managed, tax-qualified Provident Plan providing for retirement, death or service terminal pay to substantially all permanent and regular employees. Under the Provident Plan, Smart contributes to the provident fund for the credit of each member s Personal Retirement Account, or PRA, a percentage of such member s monthly salary. Net earnings of the Provident Fund are credited every nine months to the PRAs of the members based on their proportionate share in the total value of the Provident Fund as of the end of the preceding period.

In October 2003, Smart s board of directors approved enhancements to the retirement plan. The enhanced retirement plan gives a member the option to contribute to the fund up to a maximum of 10% of his monthly salary. On top of its current contribution, Smart will provide an additional contribution up to 50% of the member s contribution, depending on his tenure in the company.

Any benefit payable under this Plan shall be in lieu of or in compliance with, but not in addition to, the payment of similar benefits Smart is required to pay its employees under existing or future laws, employment contracts or collective bargaining agreements, it being understood that the employee shall be entitled only to the higher of the benefits and not to both.

Contributions by Smart to the Provident Plan charged to operations amounted to Php68 million and Php52 million for the nine months ended September 30, 2004 and 2003, respectively.

18. Other Income (Expenses) Net

This account consists of:

	Nine Months Ended September 30,	
	2004	2003
	(Unaudited) (in million pesos)	
Gain on debt exchange transactions (Note 12)	**4,419**	
Gain (loss) on derivative transaction net (Notes 2 and 24)	**435**	(1,706)
Foreign exchange losses net (Notes 12 and 24)	**(645)**	(2,886)
Hedge cost (Note 24)	**(851)**	(808)
Manpower rightsizing cost, or MRP (Note 17)	**(736)**	(1,955)
Financing charges (Note 9)	**(650)**	(643)
Asset impairment (Note 7)	**(395)**	(1,344)
Others net (Notes 13 and 22)	**(661)**	(1,448)
	916	(10,790)

In 2004, the gain on the debt exchange transaction arose from the exhange of 69.4% of Piltel s total outstanding restructured debt by Smart from Piltel s creditors. The gain represents the difference between the fair value of Piltel s debt cancelled and/or exchanged to Smart s debt amounting to Php12,893 million (net of debt discount of Php3,359 million) and Smart s consideration for the debt exchange including cash of Php84 million (US$1.5 million) and fair value of newly issued debt amounting to Php8,390 million (net of debt discount of Php7,464 million).

In relation to our early adoption of IAS 32 and 39, we recognized the following in our profit and loss accounts: (1) gain (loss) on derivative transactions representing the mark-to-market gain or loss in relation to the derivative instruments not designated as hedges; and (2) foreign exchange losses net pertaining to the foreign exchange revaluation of the carrying values of financial liabilities and hedged items prior to designation and documentation as hedged instruments in July 2004.

Over the past years, PLDT has been implementing MRP in line with its continuing effort to reduce the cost base of the fixed line business. The MRP cost charged to operations for the three quarters of 2004 and 2003 amounted to Php736 million and Php1,955 million, primarily representing charges relating to 258 and 1,681 PLDT employees affected by the program, respectively; unrecognized past service costs, which are normally amortized over the estimated

remaining working lives of employees, in respect of employees who availed of the manpower rightsizing program are recognized as loss on settlement. The decision to implement the MRP was anchored on the challenges being faced by the fixed line business as significant changes in technology, increasing competition, and shifting market preferences to cellular use have reshaped the future of the fixed line business. The MRP was implemented under the New Labor Code and is in compliance with all other relevant labor laws and regulations.

In 2004, asset impairment provisions were recognized for certain international facility equipment of PLDT Global and SubicTel in relation to our strategic direction to functionally integrate our international fixed line businesses. In 2003, impairment losses were recognized by ACeS Philippines and ePLDT in respect of certain equipment related to their investee companies.

19. Income Taxes

The net components of deferred income tax recognized in the balance sheets are as follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Net assets	**68**	256
Net liabilities	**(6,195)**	(6,405)

The components of net deferred tax assets and liabilities are as follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Net assets net:		
Allowance for doubtful accounts	**60**	565
Unearned revenues on sale of prepaid cards	**4**	394
Unamortized past service cost	**2**	6
Allowance for inventory losses		130
Provisions for unrealizable assets		82
Interest charges capitalized net of amortization		(555)
Others	**2**	(366)
	68	256

Net liabilities net:		
Allowance for doubtful accounts	**3,961**	2,890
Derivative financial instruments	**1,394**	1,331
Unamortized past service cost	**1,082**	1,139
Unearned revenues on sale of prepaid cards	**704**	140
Provisions for unrealizable assets	**518**	451
Accelerated depreciation	**325**	
Allowance for inventory losses	**253**	76
Accrued business tax and others	**49**	90
Foreign exchange differential capitalized net of depreciation	**(6,083)**	(4,971)
Interest charges capitalized net of amortization	**(5,115)**	(4,766)
Preferred stock subject to mandatory redemption	**(1,377)**	(1,748)
Gain on debt exchange transaction	**(923)**	
Taxes and duties capitalized net of amortization	**(598)**	(646)
Prepaid pension cost	**(580)**	(572)
Others	**195**	181
	(6,195)	(6,405)

The benefit of PLDT s NOLCO amounting to Php1,930 million in 2002 and Php85 million in 2003 can be claimed as deductions against taxable income until 2005 and 2006, respectively.

Provision for income tax consists of:

	Nine Months Ended September 30,	
	2004	2003
	(Unaudited) (in million pesos)	
Current	**5,066**	1,343
Deferred	**266**	(1,279)
	5,332	64

The current provision for income tax-current for the nine months ended September 30, 2004 and 2003, on a consolidated basis, mainly represents the subsidiaries income tax under the regular corporate income tax. The benefit of MCIT of Php638 million in 2002 and Php624 million in 2003 can be claimed as deductions against income tax payable until 2005 and 2006, respectively.

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for income tax follows:

	Nine Months Ended September 30,	
	2004	2003
	(Unaudited) (in million pesos)	
Provision at statutory tax rate	**8,097**	237
Tax effects of:		
Income not subject to tax	**(3,347)**	(3,896)
Income subject to final tax	**(248)**	(173)
Income subject to lower tax rate	**(105)**	(103)
Non deductible expenses	**729**	835
Equity share in net losses of investees	**297**	517
Others	**(91)**	2,647
Actual provision for income tax	**5,332**	64

Mabuhay Satellite and Subic Telecom are registered as Subic Bay Freeport Enterprises while Clark Telecom is registered as a Clark Special Economic Zone Enterprise under R.A. No. 7227, otherwise known as the Bases Conversion and Development Act of 1992, or the Act. As registrants, Mabuhay Satellite, Subic Telecom and Clark Telecom are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and special income tax rate of 5% of gross income, as defined in the Act.

On December 22, 2000, the Philippine Board of Investments, or BOI, approved ePLDT s registration as a new information technology service firm in the field of services related to its internet data center on a pioneer status. As such, ePLDT enjoys, among other incentives, a six-year income tax holiday from January 2001.

On May 3, 2001, the BOI awarded Smart pioneer status for its GSM expansion projects entitling it to a three-year income tax holiday which expired in May 2004. The tax incentive is availed on the basis of incremental income generated from the said expansion project. In addition, on July 12, 2001, the BOI awarded Smart pioneer status for its payment infrastructure projects entitling it to enjoy a six-year income tax holiday. In this case, the tax incentive is availed for the entire taxable income of the project.

Smart s deferred income tax assets and liabilities as of September 30, 2004 and December 31, 2003 have been reduced to the extent that part or all of that deferred tax assets are no longer probable to be utilized.

20. Earnings Per Common Share

The following table presents information necessary to calculate the earnings per share:

	Nine Months Ended September 30,			
	2004		2003	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited) (in million pesos)			
Net income	**20,007**	**20,007**	593	593
Less dividends on preferred shares	**1,147**	**37**	1,115	1,115
Add dividend on preferred stock subject to mandatory redemption charged to interest expense for the period		**210**		
Net income applicable to common shares	**18,860**	**20,180**	(522)	(522)
	(In Thousands, Except Per Share Amounts)			
Outstanding common shares, beginning	**169,476**	**169,476**	169,393	169,393
Effect of issuance of common shares during the period	**96**	**96**		
Weighted average number of shares under ESOP during the period		**110**		
Common shares equivalent of preferred shares deemed dilutive:				
Preferred Stock Series A to EE		**3,617**		
Global Depositary Stock Series III		**7,908**		
Preferred Stock Series V		**2,576**		
Preferred Stock Series VI		**4,764**		
Preferred Stock Series VII		**3,842**		
Weighted average number of common shares, end	**169,572**	**192,389**	169,393	169,393
Earnings per common share	**Php111.22**	**Php104.89**	Php(3.08)	Php(3.08)

Series A to EE, III, V, VI and VII Convertible Preferred Stocks were deemed dilutive based on a calculation of the required dividends on these preferred shares divided by the number of equivalent common shares assuming such preferred shares are converted into common shares, including the effect of shares under ESOP, and compared against the basic EPS. Since the amount of dividends on the Series A to EE, III, V, VI and VII Convertible Preferred Stocks over its equivalent number of common shares decreased the basic EPS, these Convertible Preferred Stocks were deemed dilutive.

The computations of diluted earnings per share were anti-dilutive for the nine months ended September 30, 2003; therefore, the amounts reported for basic and diluted earnings per share were the same.

21. Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our contractual obligations outstanding as of September 30, 2004:

	Payments Due by Period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
	(in million pesos)				
Long-term debt	168,626	31,510	60,480	20,112	56,524
Long-term lease obligations:					
Operating lease	3,231	750	1,028	633	820
Capital lease	1,800	586	642	121	451
Unconditional purchase obligations(1)	12,550	4,372	2,260	2,260	3,658
Other long-term obligations	22,020			14,015	8,005
Total contractual cash obligations	208,227	37,218	64,410	37,141	69,458

(1) The amounts disclosed in the table above are based on the original Air Time Purchase Agreement with AIL.

Long-term Debt

For a discussion of our long-term debt, see *Note 12 Long-term Debt*.

Long-term Operating Lease Obligations

Domestic Fiber Optic Network Submerged Plant Agreement. As discussed in *Note 16 Related Party Transactions*, PLDT entered into an agreement with NTT World Engineering Marine Corporation on July 4, 2000, for the submarine cable repair and other allied services in relation to the maintenance of PLDT s DFON submerged plant for a period of five years up to July 4, 2005. Under this agreement, PLDT shall pay NTT World Engineering Marine Corporation a fixed annual standing charge of US$2 million, excluding cost for the use of a remotely-operated submersible vehicle at US$5,000 for every day of use and repair cost computed at US$19,000 per day of actual repair. As of September 30, 2004, PLDT s aggregate remaining obligation under this agreement was approximately Php98 million.

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for ten to 25 years expiring at various dates. As of September 30, 2004, PLDT s aggregate remaining obligation under these contracts amounted to approximately Php33 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As of September 30, 2004, PLDT s aggregate remaining obligation under this agreement was approximately Php50 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites telecommunication equipment locations and various office equipment. In particular, Smart has lease obligations aggregating Php2,898 million as of September 30, 2004 in respect of office and cell site rentals with over 2,000 lessors nationwide.

Long-term Capital Lease Obligations.

Municipal Telephone Projects. In 1993, PLDT entered into two lease agreements with the Philippine Department of Transportation and Communications, or DOTC, covering telecommunications facilities in Bohol and Batangas established under the Municipal Telephone Act. Under these agreements, PLDT was granted the exclusive right to perform telecommunications management services, to expand services, and to promote the use of the DOTC-contracted facilities in certain covered areas for a period of 15 years. Title to the properties shall be transferred to PLDT upon expiration of the lease term. As of September 30, 2004, PLDT s aggregate remaining obligation under this agreement was approximately Php914 million. In case of cancellation, PLDT is liable to pay Php100 million under each of the two contracts as liquidated damages.

On June 1, 2004, PLDT served the DOTC a notice of termination of the lease agreement in respect of the telecommunications system in Bohol which state of deterioration, obsolescence and disrepair have made it impossible for PLDT to continue managing, operating, and maintaining the system. Since 2002, PLDT has been advising the

DOTC of the need to review the viability of the system as it has infused more than Php200 million for upgrades and maintenance to keep the system operable. Further, the enactment of R.A. No. 7925, which negated the DOTC s warranty to grant PLDT the exclusive right to provide telecommunication services in the areas stipulated, prevented PLDT from achieving the originally projected profitability thereby rendering it impossible for PLDT to continue fulfilling its obligation under the lease agreement. Although several discussions have been held since then to seek a mutually acceptable agreement, no amenable arrangement has been reached. On June 30, 2004, the DOTC advised PLDT that the request for termination of the lease agreement in Bohol has been referred to the Department of Justice, or DOJ, as government agencies are required to refer all interpretation of contracts and agreements to the DOJ secretary as attorney-general of the national government. As of the date of this report, the DOJ has not yet responded to the DOTC s referral. As of September 30, 2004, the net book value of the telecommunications system in Bohol, including PLDT s additional capital expenditure relating to the telecommunications system, and corresponding capital lease obligation amounted to Php67 million and Php778 million, respectively.

Other Long-term Capital Lease Obligations. The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, Smart and Piltel have capital lease obligations aggregating Php883 million as of September 30, 2004 in respect of office equipment and facilities.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. As discussed in *Note 16 Related Party Transactions*, PLDT is a party to a Founder NSP Air Time Purchase Agreement with AIL in March 1997, which was amended in December 1998, under which PLDT is granted the exclusive right to sell AIL services in the Philippines. In exchange, the Air Time Purchase Agreement states that PLDT has to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing on the date of the commercial operations of the Garuda I satellite. In the event AIL s aggregate billing revenue is less than US$45 million in any given year, the Air Time Purchase Agreement also states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

As of September 30, 2004, PLDT s aggregate remaining minimum obligation under the original Air Time Purchase Agreement was approximately Php11,986 million. See *Note 16 Related Party Transactions* and *Note 22 Provisions and Contingencies* for further details relating to the Air Time Purchase Agreement with AIL.

International Affiliate Agreement with VeriSign, Inc., or VeriSign. On September 15, 2000, ePLDT entered into an agreement with VeriSign for the non-exclusive, non-transferable right and license to use the VeriSign software, brand and Certification Practice Statement for the purpose of approving, issuing, suspending or revoking digital certificates for users of the internet or similar open systems in the Philippines for a period of seven years. Under this agreement, ePLDT is required to pay VeriSign a certain percentage of the revenue derived from the services subject to minimum annual royalty payments aggregating to US$11 million, which was subsequently reduced to US$1 million, for the seven-year contract period. In addition, ePLDT was required to pay an annual support fee of US$0.5 million during the first year and US$0.3 million in each year thereafter.

Effective July 1, 2003, VeriSign has agreed to amend the agreement and issued Addendum 6 to write-off all past due invoices and payments owed to VeriSign, which were invoiced or scheduled to be invoiced under the agreement prior to this Addendum 6. All royalty payments and annual support fees due through June 2003 will be part of the write-off in the amount of US$0.8 million. For contract year 4 (September 2003-August 2004), the annual support fee will be reduced from US$0.3 million to US$40,000 and for contract years 5-7 (September 2004-August 2007) from US$0.3 million to US$0.16 million. In addition, VeriSign agreed to reduce the affiliate revenue sharing rates from 50% of suggested retail price to 25% of suggested retail price for both enterprise and internet products for 12 months starting July 2003 and negotiable thereafter.

Effective July 1, 2004, Verisign has agreed to amend the Agreement and issued Addendum 8 as extension of Addendum 6. Annual support fee for year 5 (September 2004 to August 2005) will remain at US$40,000 and affiliate revenue sharing rates will remain at 25%. As of September 30, 2004, ePLDT s aggregate remaining minimum obligation under this agreement was approximately Php18 million pertaining to annual support fee.

License Purchase Agreement with I-Contact Solutions Pte. Ltd. On April 2, 2003, iPlus Intelligent Network Inc., or iPlus, a wholly-owned subsidiary of ePLDT and the Philippines pioneer in IP-based IT response center, entered into an Application Services Provider, or ASP, and Reseller Contract with I-Contact Solutions Pte. Ltd., or I-Contact, of Singapore. Under the agreement, iPlus will purchase licenses of the CosmoCall Universe IP-based contact center solution. CosmoCall Universe supports multi-channel customer interactions including telephone, web chat, web voice, web video, web collaboration, e-mail and voicemail in one high capacity, high availability, multi-tenant platform. CosmoCall Universe is a complete, unified contact center suite that includes ACD, IVR, CTI, predictive dialing, multimedia recording and a complement of other management applications. The aggregate value of these licenses is US$2.1 million and these licenses will be delivered quarterly over a two-year period. Further to the agreement, I-Contact will appoint iPlus as the exclusive reseller and ASP for the Philippine market and will provide iPlus with all the necessary support in terms of sales, marketing, and technical services. Effective March 30, 2004, I-Contact has agreed to amend the Contract and waived all financial obligations and committed seats requirement over the two-year period. iPlus will pay all its remaining obligations pertaining only to the 300 seats delivered by I-Contact. As of September 30, 2004, iPlus has paid all its obligations to I-Contact.

Other Unconditional Purchase Obligations. The PLDT Group has various purchase contracts for periods ranging from two to three years covering the use of a fraud management system and satellite hub and remote very small aperture terminal, or VSAT, network systems.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 8 Investments* and *Note 15 Equity*, as of September 30, 2004, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel.

Each share of Series V, VI, and VII Convertible Preferred Stocks is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stocks and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted to shares of PLDT s common stock. Under a put option exercisable for 30 days, holders of common shares received on mandatory conversion will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share, US$36.132 per share, and JPY4,071.89 per share for Series V, VI and VII, respectively.

As of September 30, 2004, 175,320 shares of Series V Convertible Preferred Stock and 531,251 shares of Series VI Convertible Preferred Stock had been converted to PLDT s common shares. The aggregate value of the put option based on outstanding shares as of September 30, 2004 was Php22,020 million, of which Php14,015 million is payable on June 4, 2008 and Php8,005 million on June 4, 2009, if all of the outstanding shares of Series V, VI and VII Convertible Preferred Stocks were mandatorily converted and all the underlying shares of common stock were put to PLDT. The market value of the underlying shares of common stock was Php15,557 million, based on the market price of PLDT s common stock of Php1,395 per share as of September 30, 2004.

Commercial Commitments

As of September 30, 2004, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,569 million. These commitments will expire within one year.

In October 1998, Smart entered into a Frame Supply Contract with Nokia Telecommunications OY for the supply of hardware, software and documentation for its GSM cellular network. In the same month, Smart and Nokia (Philippines), Inc., or Nokia, signed a Frame Services Contract that covers the design, planning, installation, commissioning, integration, acceptance testing, training and handling over of the GSM network. In August 2001, Smart issued a Master Purchase Order, or MPO, in the amount of US$200 million in favor of Nokia for the purchase of additional equipment to expand Smart s GSM cellular network. The US$200 million MPO was completed in November 2003. On May 30, 2003, Smart entered into a Technical Support Services Agreement, or TSSA, with Nokia in the amount of US$8 million. This TSSA has been fully served as of December 31, 2003.

In January 2004, Smart signed a new MPO in favor of Nokia amounting to US$117 million (Phase 7 under the Frame Supply Contract between Smart and Nokia). Smart is, however, under no legal obligation to incur these expenditures.

On June 23, 2004, Smart signed a TSSA with Nokia in the amount of US$10 million which is valid until December 31, 2004.

As of September 30, 2004, Smart had no guarantee obligations, standby repurchase obligations or other commercial commitments.

22. Provisions and Contingencies

NTC supervision and regulation fees, or SRF

Since 1976, PLDT has received assessments from NTC for permit, SRF and other charges pursuant to Section 40 of Commonwealth Act 146, otherwise known as the Public Service Act. As of September 30, 2004, PLDT has paid, since 1994, a total amount of Php1,718 million in SRF, of which Php1,508 million was paid under protest.

PLDT is contesting the manner by which these assessments were calculated and the basis for such calculations. The case is now with the Supreme Court and upon the rules and practice of court, now stands submitted for decision.

Smart and Piltel have similarly received assessments from NTC for permit, SRF and other charges which were paid under protest. Total payments amounted to Php131 million in 2004 and 2003, and Php123 million in 2002.

We have made a reasonable estimate of the amount necessary to pay or settle the contested assessment in the event of an unfavorable judgment against us and have made the appropriate provisions in our consolidated financial statements as of September 30, 2004.

Local business and franchise tax assessments

PLDT is presently a party to several cases involving the issue of exemption of PLDT from local franchise and business taxes. PLDT believes, based on the opinion of its legal counsel, that it is exempt from payment of local franchise and business taxes.

The Local Government Code of 1991, or R.A. No. 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, power to tax businesses within their territorial jurisdiction granted under Batas Pambansa

No. 337 and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. No. 7082.

PLDT believes, based on the opinion of its legal counsel, that Public Telecommunications Policy Act, or R.A. No. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. No. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. No. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the quality of treatment clause.

To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. No. 7160.

By virtue of the BLGF Ruling, PLDT stopped paying local franchise and business taxes starting with the fourth quarter of 1998 and has filed with certain LGUs claims for tax refund covering the period from the second quarter of 1995 to the third quarter of 1998. PLDT has received assessments for local franchise and business tax from several cities and provinces following PLDT s decision to stop payment of local franchise and business taxes.

Following a decision of the Supreme Court on March 25, 2003, a judgment in the amount of Php4 million against PLDT involving the City of Davao became final and executory on April 9, 2003, pursuant to which PLDT was not exempt from the local franchise tax. Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has taken steps to arrive at compromise settlements with several LGUs in order to maintain and preserve its good standing and relationship with these LGUs. PLDT has paid a total amount of Php157 million as of September 30, 2004 for local franchise tax covering the fourth quarter of 1998 to 2004 to certain LGUs who have agreed to a compromise settlement.

PLDT continues to contest assessments amounting to Php5,142 million, a number of which were based on the gross revenues of PLDT derived from its operations within the entire Philippines. PLDT claims that assuming that it is liable for local franchise tax, R.A. No. 7160 provides that local franchise tax shall be based on the gross receipts of the preceding year received or collected for services rendered within the jurisdiction of the taxing authority. Therefore, the use by some LGUs of gross revenues as the basis for computation of franchise tax is in gross violation of the law because it pertains to all income earned regardless of whether it was received or not, unlike gross receipts which are essentially the amount of money or its equivalent actually or constructively received. Moreover, gross revenues refer to all income earned by PLDT within and outside the jurisdiction of the local taxing authority; thus, the use thereof as a basis of computation will exceptionally overstate the franchise tax.

In a petition recently filed with the Supreme Court involving another LGU, PLDT has appealed to the Supreme Court for a re-examination of its decision in the City of Davao case in light of the strong dissenting opinion in that case concurred in by four (4) other Justices of the Supreme Court.

Smart has, likewise, received assessments for local franchise and business taxes from certain cities and provinces in the aggregate amount of Php313 million, which Smart continues to contest. Smart believes, based on the opinion of its legal counsel, that Smart is not liable to pay the local franchise and business taxes by virtue of (i) the opinion issued by the BLGF dated August 13, 1998; and (ii) Smart s exemption under its legislative franchise which took effect after the effective date of R.A. No. 7160.

Smart has recently been declared exempt from payment of local franchise tax to the City of Makati in a decision dated August 3, 2004 by the Regional Trial Court of Makati. The City of Makati has filed their motion for reconsideration and Smart has filed its opposition.

Piltel also received assessments from the local government of the City of Makati in the aggregate amount of Php45 million covering the period from 1999 to 2001. Piltel has formally protested the assessments, based on: (1) Piltel s belief that the opinion rendered by the BLGF for Smart should likewise hold true for Piltel; and (2) the effective date of the legislative franchise of Piltel (R.A. 7293) which came after the effectivity of R.A. 7160. The franchise tax prescribed under Section 137 of the Local Government Code is deemed part of the Piltel franchise (the later law) which states, among other things, that Piltel shall pay only a franchise tax equivalent to three percent of all gross receipts of the business transacted under its franchise and such percentage shall be in lieu of all taxes on the franchise or earnings thereof.

Piltel s protest of the assessments was denied by the City of Makati on December 18, 2001. Piltel then filed a petition with the Makati RTC, appealing the local franchise business taxes. On December 10, 2002, the Makati RTC rendered its judgment granting Piltel s petition and enjoining the City of Makati from assessing and collecting any further annual local franchise business taxes from Piltel. The City of Makati filed its motion for reconsideration of this judgment with the Makati RTC, which was subsequently denied. On April 1, 2003, the City of Makati filed a Petition for Review with the Court of Appeals.

On July 12, 2004, the Court of Appeals came out with a decision upholding the Makati RTC that Piltel is exempt from payment of the local Franchise Tax. In this regard, the City of Makati has filed its appeal with the Supreme Court. The Supreme Court has not yet given due course to the City of Makati s appeal.

We have made a reasonable estimate of the amount necessary to pay or settle the contested assessment in the event of an unfavorable judgment against us and have made the appropriate provisions in our consolidated financial statements as of September 30, 2004.

Air Time Purchase Agreement with AIL

In March 1997, PLDT entered into a Founder NSP Air Time Purchase Agreement with PT Asia Cellular Satellite (assigned and transferred to AIL), as amended in December 1998. The agreement states that PLDT has to purchase at least US$5 million worth of air time annually over ten years commencing on the date of the Garuda satellite s commercial operations and has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term in the event revenues generated are less than US$45 million in any given year. The air time payment obligations shall remain in effect until all indebtedness incurred by AIL have been fully repaid. See *Note 16 Related Party Transactions* and *Note 21 Contractual Obligations and Commercial Commitments* for detailed discussion of the terms of the agreement.

The Garuda satellite was launched on February 12, 2000 and was available for service beginning October 1, 2000. Pre-commercial operations began on January 1, 2001 and full commercial operations began on January 1, 2002.

We believe that the payment obligations under the Air Time Purchase Agreement exceed the economic benefits expected to be received under it as a result of the delay in the launch of the satellite, unavailability of competitive handsets and competitions from cellular GSM services, occurrence of a partial satellite loss, changes in the primary business of AIL and other factors affecting its business. Accordingly, we started negotiations with AIL for the revision of the payment obligations under the Air Time Purchase Agreement in 2000.

As a result of these negotiations, the effective date of Air Time Purchase Agreement became January 1, 2002. In 2002, billings for satellite air time were reduced to actual air time usage, less amount for marketing assistance to service providers. In March 2003, PLDT, together with the founder NSPs, entered into a Standstill Agreement with AIL. Payments made to AIL under the Air Time Purchase Agreement based on billings of actual usage and the Standstill Agreement amounted to US$1 million in 2002, US$3.8 million in 2003 and US$0.4 million for the first quarter of 2004.

On February 10, 2004, AIL advised PLDT of the termination of the Standstill Agreement and the reinstatement of the terms under the original Air Time Purchase Agreement effective January 1, 2002 following the lapse of the deadline set in the Standstill Agreement for the establishment of a revised Air Time Purchase Agreement.

On June 21, 2004, AIL also sent PLDT a letter citing PLDT in default under the Air Time Purchase Agreement for non-payment of outstanding amounts and for repudiation of its obligations thereunder. PLDT maintains, however, that the termination of the Standstill Agreement and reinstatement of the terms under the original Air Time Purchase Agreement are premature, considering that the discussions or negotiations on the terms of the proposed revised Air Time Purchase Agreement were still pending between the parties, such that it is highly inequitable for AIL to have unilaterally decided to invoke the provisions of the Standstill Agreement and declared PLDT in default. Furthermore, PLDT maintains its position that the Air Time Purchase Agreement has been rendered ineffective by various events, circumstances and technical problems encountered in the operation of the business of AIL. The substantial changes in the circumstances under which AIL must operate, changes which were not contemplated by the parties at the time the commitments were made, have rendered the commitments under the Air Time Purchase Agreement unrealistic and the performance of the same impossible.

As of September 30, 2004, PLDT s aggregate remaining minimum obligation under the original Air Time Purchase Agreement was approximately Php11,986 million.

We made a reasonable estimate of the amount necessary in the event such obligation would be settled and have made the appropriate provisions in our consolidated financial statements as of December 31, 2004 with due consideration of AIL s existing indebtedness and of PLDT s share as one of the founder NSPs. Total indebtedness of AIL amounted to US$195 million as of January 1, 2003.

23. Financial Risk Management Objectives and Policies

Our principal financial instruments, other than derivatives, comprise bank loans, fixed rate notes, convertible redeemable preferred stock and finance capital leases, cash and short-term deposits. The main purpose of these financial instruments is to fund our operations. We have various other financial instruments such as trade debtors and trade creditors, which arise directly from our operations.

We also enter into derivative transactions, principally foreign currency swap contracts, foreign exchange forward contracts, currency option contracts, and interest rate swap contracts. The purpose is to manage the currency risks and interest rate risks arising from our operations and our sources of financing.

It is, and has been throughout the year under review, our policy that no trading in financial instruments shall be undertaken.

The main risks arising from our financial instruments are liquidity risk, foreign currency risk, interest rate risk and credit risk. Our Board reviews and agrees with policies for managing each of these risks and they are summarized below. We also monitor the market price risk arising from all financial instruments. Our accounting policies in relation to derivatives are set out in Note 2.

Liquidity Risk

We seek to manage our liquidity profile to be able to finance our capital expenditures and service our maturing debts. To cover our financing requirements, we intend to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flow information and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

Foreign Currency Risk

The following table shows our consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of September 30, 2004 and as of December 31, 2003:

	September 30, 2004(1)		December 31, 2003(2)	
	(Unaudited)		(As restated Note 2)	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
	(in millions)			
Assets:				
Cash and cash equivalents	**US$296**	**Php16,647**	US$146	Php8,105
Receivables net	**159**	**8,960**	195	10,855
Prepayments and other current assets	**80**	**4,489**	29	1,615
	535	**30,096**	370	20,575
Liabilities:				
Accounts payable	**57**	**3,195**	60	3,322
Accrued expenses and other current liabilities	**65**	**3,581**	25	1,363
Notes payable			3	150
Long-term debt	**2,761**	**155,362**	3,078	167,913
Deferred credits and other noncurrent liabilities	**229**	**12,867**	256	14,205
Preferred stock subject to mandatory redemption	**205**	**11,542**	190	10,549
	3,317	**186,547**	3,612	197,502
Net foreign currency denominated liabilities	**US$2,782**	**Php156,451**	US$3,242	Php176,927

(1) The exchange rate used was Php56.276 to US$1.00.

(2) The exchange rate used was Php55.586 to US$1.00.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were Php56.276 to US$1.00 and Php55.586 to US$1.00, the Philippine peso-U.S. dollar exchange rates as of September 30, 2004 and December 31, 2003, respectively.

As at November 3, 2004, the peso dollar exchange rate was Php56.372 to US$1.00. Using this exchange rate, our consolidated net foreign currency denominated liabilities as of September 30, 2004 would have increased by Php267 million.

While a certain percentage of our revenues is either linked to or denominated in U.S. dollars, substantially all of our indebtedness, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars.

As of September 30, 2004, approximately 98% of our total consolidated debts were denominated in foreign currencies. Of our foreign currency-denominated debts, 7% are in Japanese yen, and the balance in U.S. dollars. Thus, a weakening of the peso against the U.S. dollar or Japanese yen will increase both the principal amount of our unhedged foreign currency-denominated debts (representing 67% of our consolidated foreign-currency debts), and interest expense on our debt in peso terms. In addition, many of our financial ratios and other financial tests will be negatively affected. If, among other things, the value of the peso against the U.S. dollar substantially drops from its current level, we may be unable to maintain compliance with these ratios, which could result in acceleration of some or all of our indebtedness. For further information on our loan covenants, see *Note 12 Long-term Debt* to the accompanying financial statements.

To manage our foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, we enter into foreign exchange forward contracts, foreign currency swap contracts, currency options and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. However, these hedges do not cover all of our exposure to foreign exchange risks. For further discussion on our hedging instruments, see *Note 24 Financial Instruments.*

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign exchange risk associated with our foreign currency-denominated loans.

Interest Rate Risk

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. For further discussion on our interest rate swap, see *Note 24 Financial Instruments*.

We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

The following table sets out the carrying amount, by maturity, of our financial instruments that are exposed to interest rate risk:

Period ended September 30, 2004

	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total		Fair Value	
						In Dollars	In Pesos	In Dollars	In Pesos
						(in millions)			
Liabilities:									
Long-term Debt									
Fixed Rate									
US$ Notes (in millions)	134	164	288	175	549	1,310	73,757	1,386	77,991
Interest rate	9.875%	9.25%	7.85% to 10.625%	10.50%	8.35% to 11.375%				
US$ Fixed Loans (in millions)	60	80	21	85	160	406	22,852	401	22,593
Interest rate	4.3% to 8.03%	4.3% to 7.4%	4.3% to 7.95%	5.5% to 7.89%	4.3% to 7.4%				
Japanese Yen (in millions)				89		89	4,994	89	5,008
Interest rate				2.125%					
Philippine Peso (in millions)	13	18	14		15	60	3,334	64	3,627
Interest rate	11% to 16.8%	11% to 16.8%	11% to 15.816%		15% to 16.8%				
Variable Rate									
U.S. Dollar (in millions)	112	172	202	110	264	860	48,358	860	48,358
Interest rate	0.20% to 3.4% over LIBOR	0.50% to 3.4% over LIBOR	0.55% to 3.65% over LIBOR	0.15% to 4.30% over LIBOR	0.65% to 3.625% over LIBOR				
Japanese Yen (in millions)			83	14		97	5,453	97	5,453
Interest rate			3.85% over JPY LIBOR	1.70% over JPY LIBOR					
Philippine Peso (in millions)				1	5	6	359	6	359
Interest rate				8.43%	8.43%				
Interest rate swap (fixed to floating)									
U.S. Dollar (US$125 million)						38	2,146	38	2,146
Japanese Yen (JPY15,037 million)									

Fixed Rate on US$ notional	11.375%
Variable Rate on JPY notional	8.16% over LIBOR

Year ended December 31, 2003

	Below 1 year	1-2 years	2-3 years	4-5 years	Over 5 years	Total In Dollars	Total In Pesos	Fair Value In Dollars	Fair Value In Pesos
						(in millions)			
Liabilities:									
Long-term Debt									
Fixed Rate									
US$ Notes (in millions)	77	138	175	300	724	1,414	78,581	1,444	80,273
Interest rate	10.625%	9.875%	9.25%	7.85% to 10.625%	8.35% to 11.375%				
US$ Fixed Loans (in millions)	61	91	47	119	19	337	18,723	360	19,975
Interest rate	3.8% to 8.01%	3.8% to 8.03%	5.6% to 5.95%	5.6% to 7.95%	5.6% to 6.56%				
Japanese Yen (in millions)				91		91	5,068	92	5,121
Interest rate				2.125%					
Philippine Peso (in millions)	15	31	14		15	75	4,147	81	4,489
Interest rate	11% to 17.5%	11% to 16.8%	15.816% to 16.8%		15%				
Variable Rate									
U.S. Dollar (in millions)	82	163	209	268	285	1,007	56,015	1,007	56,015
Interest rate	0.75% to 3.4% over LIBOR	0.20% to 3.4% over LIBOR	0.50% to 3.65% over LIBOR	0.15% to 4.30% over LIBOR	0.65% to 3.625% over LIBOR				
Japanese Yen (in millions)			103	13	111	227	12,631	227	12,631
Interest rate			1% to 3.85% over JPY LIBOR	1% over JPY LIBOR	1% over JPY LIBOR				
Philippine Peso (in millions)			1	6	53	60	3,314	60	3,314
Interest rate			6.29%	6.29%	6.29%				

Interest rate swap (fixed to floating)					
U.S. Dollar (US$125million)		46	2,582	46	2,582
Japanese Yen (JPY15,037 million)					
Fixed Rate on US$ notional	11.375%				
Variable Rate on JPY notional	8.16% over LIBOR				

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of instrument. Financial instruments that are not subject to interest rate risk were not included in the above tables.

Credit Risk

We trade only with recognized, creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to reduce our exposure to bad debts.

With respect to credit risk arising from our other financial assets, which comprise cash and cash equivalents, certain derivative instruments, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

We have no significant concentrations of credit risk.

24. Financial Instruments

Fair Values

The estimated fair values of the financial instruments included in the respective account captions as of September 30, 2004 and December 31, 2003 are as follows:

	Carrying Value		**Fair Value**	
	September 30, 2004	December 31, 2003	**September 30, 2004**	December 31, 2003
	(in millions of pesos)			
Financial assets:				
Cash and cash equivalents	27,516	19,372	27,516	19,372
Accounts receivable - net	12,972	16,908	12,972	16,908
Foreign currency swaps	1,070	1,360	1,070	1,360
Foreign currency options	629	247	629	247
Foreign exchange contracts	12		12	
Financial liabilities:				
Accounts payable	7,158	5,487	7,158	5,487
Accrued expenses and other current liabilities	17,565	16,435	17,565	16,435
Dividends payable	716	577	716	577
Notes payable	18	2,133	18	2,133
Long-term debt (including current portion)	159,107	178,479	161,252	187,613
Interest rate swaps	2,146	2,582	2,146	2,582
Foreign exchange contracts		62		62
Bifurcated foreign currency forwards		17	3	17
Preferred stock subject to mandatory redemption				
Series V	2,321	2,054	3,923	3,655
Series VI	6,043	5,433	7,619	6,983
Series VII	5,499	5,248	5,737	5,448

Financial Assets and Liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents: Due to the short-term nature of our transactions, the carrying amount reported in the consolidated balance sheets approximates the fair value of our short-term deposit.

Accounts receivable: The net carrying value represents the fair value due to the short-term maturities of these receivables.

Accounts payable and accrued expenses, dividends payable and notes payable: The carrying value reported in the consolidated balance sheets approximates fair value due to the short-term maturities of these liabilities.

Long-term debt: Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans: U.S. dollar notes/convertible debt Other loans in all other currencies	 Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans.
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Preferred stock subject to mandatory redemption: The fair values were determined using an independent third party valuation model.

Forward foreign exchange contracts and bifurcated foreign currency forwards: The fair values were determined using forward exchange market rates at the balance sheet date.

Foreign currency options: The fair values were computed using an option pricing model.

Foreign currency and interest rate swaps: The fair values were computed as the present value of estimated future cash flows.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to

a particular risk associated with a recognized asset or liability. Changes in the fair value of these instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized in earnings. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

The table below sets out the information about our derivative financial instruments as of September 30, 2004 and December 31, 2003:

	September 30, 2004		**December 31, 2003**	
Maturity	**Notional Amount**	**Mark-to-market Gain (Loss)**	**Notional Amount**	**Mark-to-market Gain (Loss)**
		(in millions)		
PLDT				
Cash flow hedges:				
Long-term currency swaps				
2017	US$300	Php804	US$300	Php687
2012	250	266	250	563
2009(1)			175	110
Long-term foreign currency options				
2009	175	655		
Short-term foreign currency options	73	(121)		
Transactions not designated as hedges:				
Long-term foreign currency options	US$175(2)	(Php20)	US$	Php
Short-term foreign currency options			79	247
Short-term options	73(3)	123		

Subsidized forwards	5	1		
JPY options	JPY875	(9)		
Interest rate swap	US$125	(2,146)	125	(2,582)
Forward foreign exchange contracts	US$79	(3)	125	(11)
	JPY811	3		
Bifurcated embedded derivatives	US$1	(3)	3	(12)
		(450)		(998)
Smart				
Transactions not designated as hedges:				
Forward foreign exchange contracts	US$66	12	US$72	(51)
Bifurcated foreign-currency forwards	11	3	15	(5)
		15		(56)
Net liabilities		(Php435)		(Php1,054)

(1) Re-classified as long-term currency options starting July 1, 2004;

(2) Non-hedged portion of 2009 long-term foreign currency options based on the same notional amount as hedged portion; and

(3) Non-hedged portion of short-term foreign currency options based on the same notional amount as hedged portion.

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Presented As:		
Current assets (Note 6)	**390**	267
Noncurrent assets (Note 9)	**4,115**	1,361
Current liabilities (Note 11)	**(384)**	(91)
Noncurrent liabilities (Note 13)	**(4,556)**	(2,591)
Net liabilities	**(435)**	(1,054)

Cumulative translation adjustments as of September 30, 2004 consists of:

	In Million Pesos
Net loss from derivative transactions	115
Net loss from financial assets available for sale	8
Foreign exchange from revaluation of hedged item	73
	196
Tax on items taken directly to equity	(60)
Net cumulative translation adjustments	136

Analysis of gain (loss) on derivative transaction for the nine months ended September 30, 2004 and 2003 are as follows:

	September 30, 2004 (Unaudited)	December 31, 2003 (As restated Note 2)
	(in million pesos)	
Net mark-to-market loss ending	**(435)**	(2,141)
Net mark-to-market loss beginning	**(1,054)**	(600)
Net change	**619**	(1,541)
Net loss charged to cumulative translation adjustments	**115**	
Others	**(299)**	(165)
Net gain (loss) on derivative transactions during the period	**435**	(1,706)

PLDT

Cash Flow Hedges

Long Term Currency Swaps

PLDT entered into long-term principal-only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2009, 2012 and 2017. As of September 30, 2004 and December 31, 2003, these long-term currency swaps have an aggregate notional amount of US$550 million and US$725 million, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. Dollar/Philippine Peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. In March and April 2004, PLDT entered into amendments to keep the lowest reset exchange rate and unwind the downward resettable feature of US$550 million of its long-term principal-only currency swap agreements

in order to lower the running hedging cost of the swaps. As of September 30, 2004 and December 31, 2003, the outstanding swap contracts have an average exchange rate of Php50.756 and Php51.22, respectively.

In order to manage hedge costs, these swaps included credit-linkage feature with PLDT as the reference entity. The specified credit events include bankruptcy, failure to pay, obligation acceleration, moratorium/repudiation, and restructuring of PLDT bonds or all or substantially all of PLDT s obligations. Upon the occurrence of any of these credit events, subject to agreed threshold amounts where applicable, the obligations to both PLDT and its counterparty under the swap contracts terminate without further settlements to either party, including any mark-to-market value of the swaps. In March 2004, PLDT amended an additional US$150 million of the long-term currency swaps to include this credit-linkage feature As of September 30, 2004 and December 31, 2003, US$725 million and US$575 million of PLDT s long-term currency swaps/options, respectively, have been structured to include credit-linkage with PLDT as the reference entity. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged to about 2.64% and 2.10% per annum as at September 30, 2004 and December 31, 2003, respectively. As cash flow hedges, any movements in the fair value of these instruments will be taken as a cumulative translation adjustment under equity in our balance sheets.

Long Term Currency Options

To manage hedging costs, the currency swap agreement relating to the 2009 fixed rate notes has been structured to include currency option contracts. If the Philippine Peso to U.S. Dollar spot exchange rate on maturity date settles beyond Php90.00 to US$1.00, PLDT will have to purchase U.S. Dollar at an exchange rate of Php52.50 to US$1.00 plus the excess above the agreed threshold rate. On the other hand, if on maturity, the Philippine Peso to US$1.00 spot exchange rate is lower than the exchange rate of Php52.50 to US$1.00, PLDT will have the option to purchase at the prevailing Philippine Peso to U.S. Dollar spot exchange rate. In July 2004, PLDT and its counterparty, agreed to re-document and re-classify the transaction into long-term currency option contracts. The net semi-annual floating hedge cost payments that PLDT is required to pay under these transactions was approximately 3.32% and 2.30% per annum as at September 30, 2004 and December 31, 2003, respectively.

The option currency contract relating to PLDT s option to purchase U.S. Dollar at Php52.50 to US$1.00 or prevailing spot rate at maturity whichever is lower, qualifies as a cash flow hedge. The option currency contract relating to the counterparty s option to purchase foreign currency from PLDT at Php90.00 to US$1.00 is not designated as a hedge. Please refer to discussion below (under transactions not designated as hedges).

Short Term Currency Options

PLDT utilized structures incorporating currency options to hedge the maturing principal on its fixed rate notes due June 2004 and June 2005. Under the terms of the contracts, PLDT will have the option to purchase U.S. Dollar at an agreed Philippine Peso to U.S. Dollar spot exchange rate or prevailing spot rate at maturity whichever is lower.

Transactions Not Designated as Hedges

Due to the amounts of PLDT s foreign currency hedging requirements and the large interest differential between the Philippine Peso and the U.S. Dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

Long Term Currency Options

With reference to the above-mentioned hedge on the PLDT s 2009 fixed rate notes, PLDT simultaneously sold a currency option contract with the same notional amount of US$175 million with the same maturity that gives the counterparty a right to purchase foreign currency at Php90.00 to US$1.00. Together with the long-term currency option contract classified under cash flow hedges, PLDT has the obligation to purchase U.S. Dollar at an exchange rate of Php52.50 to US$1.00 plus the excess above the agreed threshold rate. In exchange for this condition, the overall net hedging cost for the transaction is reduced.

Short Term Currency Options

In order to manage hedge costs, currency option contracts that hedge PLDT s fixed rate notes due June 2004 and June 2005 have features similar to that of the long-term currency option contracts. PLDT simultaneously sold currency option contracts with the same notional amounts with same maturity. Together with the other short term currency option contracts classified under cash flow hedges, PLDT has the obligation to buy U.S. Dollar at the agreed strike price plus the excess above the agreed threshold rate should the Philippine Peso to U.S. Dollar spot exchange rate on maturity date settle beyond that agreed threshold. In exchange for this condition, the overall net hedging cost for the transactions is reduced.

PLDT also entered into short term US$ subsidized forwards and JPY currency option contracts to hedge other short-term foreign currency obligations.

Interest Rate Swap

A portion of PLDT s currency swap agreements to hedge its 2017 fixed rate notes carry fixed rate swap cost payments. To effectively lower the running cost of such swap agreements, PLDT, in April 2003, entered into an agreement to

swap the coupon on US$125 million of its 2012 fixed rate notes into a floating rate JP¥ amount. Under this agreement, PLDT is entitled to receive a fixed coupon rate of 11.375% provided the JP¥ to U.S. Dollar exchange rate stays above JP¥99.90/US$1.00. Below this level, a reduced fixed coupon rate of 3% will be due to PLDT. In order to mitigate the risk of the JP¥ strengthening below the agreed threshold, PLDT, in December 2003, entered into an overlay swap transaction to effectively lower the portion of the coupon indexed to the U.S. Dollar to JP¥ rate to 3%. Both swap agreements include a credit-linkage feature with PLDT as the reference entity.

Forward Foreign Exchange Contracts

PLDT entered into short-term U.S. Dollar and JP¥ forward foreign exchange contracts to hedge short-term foreign currency obligations.

Bifurcated Embedded Derivatives

Derivative instruments include derivatives (or derivative-like provisions) embedded in non-derivative contracts. PLDT s outstanding bifurcated embedded derivative transactions cover service contracts denominated in U.S. dollars to be paid out to a Japanese company.

Smart

Smart uses forward exchange contracts to hedge foreign currency-denominated assets, liabilities and firm commitments.

The above forward contracts have maturities ranging from one to six months. Cash deposits, presented as prepayment for forward purchase contract under Prepayments and other current assets , amounting to Php2,863 million and Php2,864 million collateralize certain of the forward exchange contracts outstanding as of September 30, 2004 and December 31, 2003, respectively.

Smart s embedded derivatives were bifurcated from service and purchase contracts. As of December 31, 2003, outstanding contracts included a service contract with foreign equipment supplier and various suppliers covering handset importations payable in U.S. Dollars. Outstanding contracts as of September 30, 2004 covered handset importations only.

25. Reportable Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

We have organized our business into three main segments:

- Wireless wireless telecommunications services provided through our cellular service providers, Smart and Piltel, and satellite and VSAT operators, namely PLDT s subsidiaries Mabuhay Satellite, ACeS Philippines and Telesat;

- Fixed Line fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries Clark Telecom, Subic Telecom, Maratel, BCC which together account for approximately 1% of our consolidated fixed lines in service, and PLDT Global; and

- Information and Communications Technology information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by PLDT s subsidiary, ePLDT, call center services provided by ePLDT s subsidiaries, Parlance Systems, Inc. and Vocativ Systems, Inc., internet access services provided by ePLDT s subsidiary, Infocom Technologies, Inc., and e-commerce, call centers and IT-related services provided by other investees of ePLDT, as described in *Note 8 Investments*.

The segment assets as of September 30, 2004 and December 31, 2003 and results of operations of our reportable segments for the nine months ended September 30, 2004 and 2003 reported under Philippine GAAP are as follows:

	Wireless	Fixed Line	Information and Communications Technology	Eliminations	Total

			(in million pesos)		
As of and for the nine months ended September 30, 2004 (Unaudited)					
Operating revenues:	51,444	35,881	1,788	(1,594)	87,519
External revenues	50,648	35,319	1,552		87,519
Inter-segment revenues	796	562	236	(1,594)	
Operating expenses:	26,705	25,543	1,648	(1,742)	52,154
External expenses	25,908	24,665	1,581		52,154
Inter-segment expenses	797	878	67	(1,742)	
Operating income	24,740	10,654	(29)		35,365
Segment assets	86,458	247,476	3,282	(31,306)	305,910
Segment liabilities	44,792	176,149	3,423	(7,078)	217,286
Net cash flows provided by (used in):					
Operating activities	30,635	23,309	321	276	54,541
Investing activities	(13,132)	8,243	(498)	(11,226)	(16,613)
Financing activities	(17,059)	(23,931)	336	10,950	(29,704)
Provision for doubtful accounts	95	2,105	5		2,205
Depreciation and amortization	9,451	10,764	231		20,446
Impairment losses		395			395
Capital expenditures	(12,811)	(3,222)	(205)		(16,238)
As of December 31, 2003 (As restated Note 2) and for the nine months ended September 30, 2003 (Unaudited)					
Operating revenues:	38,173	37,123	1,322	(3,094)	73,524
External revenues	37,436	34,830	1,258		73,524
Inter-segment revenues	737	2,293	64	(3,094)	
Operating expenses:	24,700	27,722	1,405	(3,748)	50,079
External expenses	23,780	24,894	1,405		50,079
Inter-segment expenses	920	2,828		(3,748)	
Operating income (losses)	13,473	9,401	(83)	654	23,445
Segment assets	86,577	240,973	3,050	(29,814)	300,786
Segment liabilities	53,683	187,582	2,856	(12,889)	231,232
Net cash flows provided by (used in):					
Operating activities	19,544	17,676	(121)	254	37,353
Investing activities	(6,608)	(1,316)	(26)	(4,347)	(12,297)
Financing activities	(10,998)	(17,779)	178	4,093	(24,506)
Provision for doubtful accounts	501	2,575	14		3,090
Depreciation and amortization	7,688	10,207	247		18,142
Impairment losses	1,267		77		1,344
Capital expenditures	(6,937)	(4,224)	(71)		(11,232)

26. Other Matters

a. Long-Term Incentive Plan, or LTIP

On August 3, 2004, PLDT s Board of Directors approved the establishment of an LTIP for eligible key executives and advisors of PLDT and it subsidiaries and affiliates. The LTIP is a four-year cash plan covering the period January 1, 2004 to December 31, 2007. The awards payment at the end of the four-year period (without interim payments) is contingent upon the achievement of the approved target increase in PLDT s common share price by the end of the plan period and the cumulative consolidated net income target for the plan period. The target increase in the PLDT base share price, which is the average of the closing prices of PLDT shares ten trading days before or after December 31, 2003, is approximately 15% per annum compounded for the plan period.

b. Interconnection Agreements

PLDT has existing interconnection agreements with nine International Gateway Facilities, or IGF operators, six Inter Exchange Carriers, or IXCs, six Cellular Mobile Telephone Systems, or CMTS operators, 70 LECs (including members of the Philippine Association of Private Telephone Companies, Inc.), and 12 paging and trunk radio operators. These interconnection agreements include provisions for settlement and payment of charges. Settlements with interconnecting IGF operators and CMTS operators for local calls are in the form of access charges. Settlement with interconnecting IXCs and LECs for toll calls are based on hauling and access charges, and to some extent, revenue sharing. Settlement also involves payment of access charges, but settlement for toll calls is on a revenue-sharing basis. LEC to LEC interconnection with hauling from one service area to another service area is settled based on trunk charges, while overlay LEC to LEC interconnection in a given service area is without charges. Paging and trunk radio interconnection settlements are based on fixed charges.

c. U.S. Federal Communications Commission, or U.S. FCC, Ruling versus Philippine Telecommunications Companies

Effective as of February 1, 2003, PLDT stopped terminating traffic sent directly by each of AT&T and MCI, because PLDT s termination rate agreements with AT&T and MCI lapsed in December 2002 without either agreeing with PLDT on any provisional arrangement or final agreement on new termination rates. In orders dated February 7 and 26, 2003, the NTC confirmed that absent any provisional or interim agreement with U.S. carriers, there would be no provision of termination services between the parties who are thereby encouraged to seek other routes or options to terminate traffic to the Philippines. Upon petitions of AT&T and MCI, on March 10, 2003, the International Bureau of the U.S. FCC issued an Order which directed all facilities-based carriers subject to U.S. FCC jurisdiction to suspend payments for termination services to Philippine carriers, including PLDT, Smart and Subic Telecom, until such time as the U.S. FCC issued a Public Notice that AT&T s and MCI s circuits on the U.S. Philippine route were fully restored. The Order also removed the Philippines from the list of U.S. international routes approved for the provision of International Simple Resale, or ISR. In response to the International Bureau s Order, the NTC issued a Memorandum Order dated March 12, 2003, directing all affected Philippine carriers (1) not to accept terminating traffic via direct circuits from U.S. facilities-based carriers who do not pay Philippine carriers for services rendered; and (2) to take all measures necessary to collect payments for services rendered in order to preserve the viability, efficiency, sustained growth and development and continued competitiveness of the Philippine telecommunications industry.

On October 17, 2003, based on negotiations between the NTC and the U.S. FCC to resolve the issue regarding termination rates, the NTC, in the expectation that the U.S. FCC would fully lift the March 10, 2003 Order, lifted its March 12, 2003 Order and directed all Philippine carriers to immediately accept terminating traffic via direct circuits from U.S. facilities-based carriers at mutually acceptable final or interim termination rates and other terms and conditions agreed upon by the parties.

On November 17, 2003, after Smart reached interim agreements with each of AT&T and MCI on September 30 and November 12, 2003, respectively, the International Bureau of the U.S. FCC lifted its March 10, 2003 Order with respect to Smart and ordered the U.S. carriers to resume making payments to Smart.

On January 15, 2004, after PLDT reached interim agreements with each of MCI and AT&T and reopened its circuits with these carriers on November 12, 2003 and January 9, 2004, respectively, the International Bureau of the U.S. FCC lifted its March 10, 2003 Order also with respect to PLDT and ordered the U.S. carriers to resume making payments to PLDT.

On May 13, 2004, the U.S. FCC partially dismissed and partially denied applications by Philippine carriers, including PLDT, and certain U.S. carriers for review of the March 10, 2003 Order of the International Bureau of the U.S. FCC. In particular, the U.S. FCC affirmed the March 10, 2003 Order s finding that Philippine carriers engaged in collective action to whipsaw AT&T and MCI. The U.S. FCC stated, however, that the findings of the March 10, 2003 Order were not findings under the U.S. anti-trust laws and that the U.S. Department of Justice is independently investigating the possibility of anticompetitive practices among Philippine carriers under its authority pursuant to U.S. anti-trust laws. The U.S. FCC also upheld the March 10, 2003 Order in respect of the suspension of payments for termination services to the Philippine carriers pending restoration of the circuits. In addition, the U.S. FCC denied a request to modify the March 10, 2003 Order of the International Bureau of the U.S. FCC to restore the Philippines to the list of U.S.-international routes approved for the provision of ISR. The U.S. FCC stated that it was dismissing this request as moot because of the U.S. FCC s recently adopted International Settlements Policy Reform Order which eliminated ISP.

Although not included in the initial list of countries exempted from the U.S. FCC s International Settlements Policy, or ISP, the U.S. FCC identified the U.S. Philippines route as eligible for being removed from the ISP in accordance with its newly established procedures for doing so. Under this procedure, the U.S. FCC asked for public comment on the removal of the Philippines from the ISP. In comments filed in June and July 2004, removal was reported by several Philippine and U.S. carriers, including AT&T and MCI, and was opposed by one U.S. carrier, International Access, Inc.

On July 6, 2004, PLDT filed with the U.S. FCC a Petition for Reconsideration of the Commission s May 13, 2004 Order on the grounds that the Order should have vacated as moot the International Bureau s March 10, 2003 Order.

d. Investigation by U.S. Department of Justice

In January 2004, PLDT received a grand jury subpoena seeking documents and a PLDT employee was subpoenaed to testify before the grand jury in connection with a criminal investigation being conducted by the U.S. Department of Justice with respect to alleged antitrust violations relating to the provision of international termination services in the Philippines. The U.S. Department of Justice has also requested testimony and documents from Smart in connection with this investigation. Further, in March 2004, PLDT (U.S.) Ltd., a subsidiary of PLDT Global, received a grand jury subpoena seeking documents, in response to which PLDT (U.S.) Ltd. produced documents. In addition, in March 2004, a PLDT (U.S.) Ltd. employee received a subpoena to testify before the grand jury in connection with this investigation. This employee has not yet been asked to appear before the grand jury. At this time, the PLDT Group cannot predict the outcome of this investigation.

27. Reclassification of Accounts

We have reclassified certain accounts in 2003 to conform with our 2004 consolidated financial statements presentation.