UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2014**

OR

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

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph;

Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines

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

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

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

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

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

None

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

8.350% Notes due March 2017

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

As at December 31, 2014:
216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
36,000,570 shares of Non-voting Preferred Stock, Par Value Ten Philippine Pesos Per Share
150,000,000 shares of Voting Preferred Stock, Par Value One Philippine Peso Per Share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x No ¨

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (of for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT or the Company mean Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see *Note 2 Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for a list of these subsidiaries, including a description of their respective principal business activities).

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

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

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ are to the lawful currency of the United States and all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan. Unless otherwise indicated, conversion of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php44.74 to US$1.00 on December 31, 2014. On March 25, 2015, the volume weighted average exchange rate quoted was Php44.77 to US$1.00.

In this annual report, each reference to:

ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, an 88.5%-owned subsidiary of PLDT;

ADRs means American Depositary Receipts;

ADSs means American Depositary Shares;

AFCS means Automated Fare Collection System;

AFCSI means Automated Fare Collection Systems, Inc., a 20%-owned subsidiary of Smart;

AGS means ABM Global Solutions, Inc., a 99.8%-owned subsidiary of ePLDT;

AGS Group means AGS and its subsidiaries;

ARPU means average revenue per user;

Bayan means Bayan Telecommunications, Inc.;

BCC means Bonifacio Communications Corporation, a 75%-owned subsidiary of PLDT;

Beacon means Beacon Electric Asset Holdings, Inc., 50%-owned by PCEV;

Beta means Asia Outsourcing Beta Limited;

BIR means Bureau of Internal Revenue;

BPO means business process outsourcing;

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BSP means Bangko Sentral ng Pilipinas;

BTFHI means BTF Holdings, Inc., a wholly-owned company of the PLDT Beneficial Trust Fund;

BTS means base transceiver station;

CBA means collective bargaining agreement;

CEO means chief executive officer;

CG Manual means PLDT Manual on Corporate Governance;

Chikka means Chikka Holdings Limited, a wholly-owned subsidiary of Smart;

Chikka Group means Chikka and its subsidiaries;

Cignal TV means Cignal TV, Inc., a wholly-owned subsidiary of Satventures, Inc.;

ClarkTel means PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT;

CMTS means cellular mobile telephone system;

CPCN means Certificate of Public Convenience and Necessity;

CURE means Connectivity Unlimited Resource Enterprise, Inc., a wholly-owned subsidiary of PHC;

DFON means domestic fiber optic network;

Digitel means Digital Telecommunications Philippines, Inc., a 99.6%-owned subsidiary of PLDT;

Digitel Group means Digitel and its subsidiaries;

DMPI means Digitel Mobile Philippines, Inc., which owns the brand name *Sun Cellular* and is a wholly-owned subsidiary of Digitel;

DSL means digital subscriber line;

ECC means Executive Compensation Committee;

ePDS means ePDS, Inc., a 67%-owned subsidiary of ePLDT;

ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;

EPS means earnings per share;

FECL means Far East Capital Limited, a wholly-owned subsidiary of Smart;

First Pacific means First Pacific Company Limited;

First Pacific Group means First Pacific and its Philippine affiliates;

FP Parties means First Pacific and certain Philippine affiliates and wholly-owned non-Philippine subsidiary;

FTTH means Fiber-to-the-Home;

GAAP means generally accepted accounting principles;

Globe means Globe Telecom, Inc.;

GNC means Governance and Nomination Committee;

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GSM means global system for mobile communications;

HB means House Bill;

HSPA means high-speed packet access;

IAS means International Accounting Standards;

I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;

ICT means information and communications technology;

IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;

IGF means international gateway facility;

IP means internet protocol;

IPCDSI means IP Converge Data Services, Inc., a wholly-owned subsidiary of ePLDT;

ISP means internet service provider;

JG Summit Group means JG Summit Holdings, Inc. and its affiliates;

JGSHI means JG Summit Holdings, Inc.;

LEC means local exchange carrier;

LTE means long-term evolution;

LTIP means long-term incentive plan;

Maratel means PLDT-Maratel, Inc., a 98%-owned subsidiary of PLDT;

MediaQuest means MediaQuest Holdings, Inc., a wholly-owned entity of the PLDT Beneficial Trust Fund;

Meralco means Manila Electric Company;

MIC means Mabuhay Investments Corporation (formerly Mabuhay Satellite Corporation), a 67%-owned subsidiary of PLDT;

MPIC means Metro Pacific Investments Corporation, a subsidiary of First Pacific;

MPRI means Metro Pacific Resources, Inc.;

MVNO means mobile virtual network operations;

NGN means Next Generation Network;

NTC means the National Telecommunications Commission of the Philippines;

NTT means Nippon Telegraph and Telephone Corporation;

NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;

NTT DOCOMO means NTT DOCOMO, Inc., a majority-owned and publicly traded subsidiary of NTT;

NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;

NYSE means New York Stock Exchange;

PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;

PCEV means PLDT Communications and Energy Ventures, Inc., a 99.9%-owned subsidiary of Smart;

PDRs means Philippine Depositary Receipts;

PDSI means Primeworld Digital Systems, Inc., a wholly-owned subsidiary of Smart;

PFRS means Philippine Financial Reporting Standards;

PG1 means Pacific Global One Aviation Co., Inc., a 65%-owned subsidiary of PLDT;

PGIC means Philippine Global Investments Corporation, a wholly-owned subsidiary of PLDT Global;

PGIH means Philippine Global Investments Holdings, Inc. (formerly SPi Global Holdings, Inc.), a wholly-owned subsidiary of PLDT;

PGNL means Pilipinas Global Network Limited, a 64.6%-owned subsidiary of PLDT;

PHC means PH Communications Holdings Corporation, a wholly-owned subsidiary of Smart;

PHIG means Philippine Internet Group, a joint venture agreement between PLDT and Rocket;

Philcom means PLDT-Philcom, Inc., a wholly-owned subsidiary of PLDT;

Philcom Group means Philcom and its subsidiaries;

Philippine SEC means the Philippine Securities and Exchange Commission;

Philweb means Philweb Corporation;

PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;

PLDT Digital means PLDT Digital Investments Pte. Ltd., a wholly-owned subsidiary of PLDT;

PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;

PLDT Online means PLDT Online Investments Pte. Ltd., a wholly-owned subsidiary of PLDT Digital;

PLP means PLDT Landline Plus;

PSE means the Philippine Stock Exchange, Inc.;

PTIC means Philippine Telecommunications Investment Corporation;

Satventures means Satventures, Inc., a wholly-owned subsidiary of Mediaquest;

SBI means SmartBroadband, Inc., a wholly-owned subsidiary of Smart;

SIM means Subscriber Identification Module;

Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;

SME means small and medium enterprises;

SMI means Smart e-Money, Inc. (formerly Smart Hub, Inc.), a wholly-owned subsidiary of Smart;

SMS means Short Messaging Service;

SRF means Supervision and Regulation Fees;

SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;

TSC means the Technology Strategy Committee;

U.S. SEC means the United States Securities and Exchange Commission;

VAS means Value-Added Service;

VoIP means Voice over Internet Protocol;

Voyager means Voyager Innovations, Inc., a wholly-owned subsidiary of Smart;

VPN means vitual private network;

W-CDMA means Wideband-Code Division Multiple Access;

WiMAX means Worldwide Interoperability for Microwave Access; and

Wolfpac means Wolfpac Mobile, Inc., a wholly-owned subsidiary of Smart.

FORWARD-LOOKING STATEMENTS

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

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

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

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PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2014 and 2013 and for the three years in the period ended December 31, 2014, included in Item 18. Financial Statements of this annual report on Form 20-F have been prepared in conformity with IFRS.

As at December 31, 2014, our chief operating decision maker, which we refer to as our Management Committee, categorized our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which was completed in April 2013. The results of operations of our BPO business for the four months ended April 30, 2013 and for the year ended December 31, 2012 were presented as discontinued operations. See Item 4. Information on the Company Development Activities (2012-2014) Sale of BPO Segment , *Note 2 Summary of Significant Accounting Policies Discontinued Operations* and *Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Held-for-Sale and Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion of the classification of the BPO segment as an asset held-for-sale.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Performance Indicators

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

Adjusted EBITDA

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

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A reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2014, 2013 and 2012 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and nonrecurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2014, 2013 and 2012 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

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Selected Financial Data

The selected consolidated financial information below as at December 31, 2014, 2013, 2012, 2011 and 2010 and for the financial years ended December 31, 2014, 2013, 2012, 2011 and 2010, should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, and the accompanying notes, included elsewhere in Item 18. Financial Statements of this annual report on Form 20-F. As disclosed under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 have been prepared and presented in conformity with IFRS.

	2014[1]	**2014**	**2013**	**2012**	**2011**[2]	**2010**
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)					
Statements of Operations Data**:**						
Revenues	US$ 3,821	Php 170,962	Php 168,331	Php 163,033	Php 148,479	Php 150,814
Service revenues	3,690	165,070	164,052	159,738	145,834	148,597
Non-service revenues	132	5,892	4,279	3,295	2,645	2,217
Expenses[3]	2,916	130,457	125,515	122,529	106,424	95,287
Net income (loss) for the year	762	34,090	35,453	36,099	31,218	39,825
Continuing operations	762	34,090	33,384	35,556	30,351	40,314
Discontinued operations			2,069	543	867	(489)
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	3.52	157.51	163.67	167.07	161.05	210.53
Diluted	3.52	157.51	163.67	167.07	160.91	210.53
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	3.86	172.88	154.09	164.55	156.52	213.15
Diluted	3.86	172.88	154.09	164.55	156.39	213.15
Balance Sheets Data						
Cash and cash equivalents	596	26,659	31,905	37,161	46,057	36,678
Total assets	9,752	436,295	399,638	405,815	401,792	278,083
Total long-term debt net of current portion	2,579	115,399	88,924	102,811	91,273	75,879
Total debt[3]	2,908	130,123	104,090	115,792	117,275	89,646
Total liabilities	6,737	301,434	262,312	260,081	247,546	180,351
Total equity attributable to equity holders of PLDT	3,003	134,364	137,147	145,550	153,860	97,416
Weighted average number of common shares for the year (in thousands)	216,056	216,056	216,056	216,055	191,369	186,790
Other Data:						
Depreciation and amortization	701	31,379	30,304	32,354	27,539	25,881
Ratio of earnings to fixed charges[4]	6.5x	6.5x	5.7x	5.4x	5.9x	7.0x
Net cash provided by operating activities	1,476	66,015	73,763	80,370	79,209	77,260
Net cash used in investing activities	(1,155)	(51,686)	(21,045)	(39,058)	(29,712)	(23,283)
Net cash used in financing activities	(445)	(19,897)	(59,813)	(48,628)	(40,204)	(55,322)
Dividends declared to common shareholders	893	39,970	37,809	36,946	41,460	40,909
Dividends declared per common share	4.14	185.00	175.00	171.00	222.00	219.00

(1) *We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2014, has been converted into U.S. dollars at the exchange rate of Php44.74 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2014. This conversion should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.*

(2) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011.*

(3) *Total debt represents the sum of (i) current portion of long-term debt; (ii) long-term debt net of current portion; and (iii) notes payable.*

(4) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for noncontrolling interests in consolidated subsidiaries or income or loss from equity investees; (b) fixed charges; (c) amortization of capitalized interest;(d) distributed income of equity investees; and (e) share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest; (2) preference security dividend requirements of consolidated subsidiaries; and (3) the noncontrolling interests in pre-tax income of subsidiaries that have not incurred fixed charges.*

Fixed charges consist of interest expense and capitalized interest, amortized premiums, discounts and capitalized expenses related to indebtedness, an estimate of interest within rental expense, and preference security dividend requirements of consolidated subsidiaries.

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Capital Stock

The following table summarizes PLDT s capital stock issued and outstanding as at December 31, 2014 and 2013:

	December 31, 2014	2013
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
HH and II	Php	Php
Series IV Cumulative Non-convertible Redeemable Preferred Stock	360	360
Voting Preferred Stock	150	150
	510	510
Common Stock	Php 1,080	Php 1,080

Dividends Declared

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2012, 2013 and 2014:

Earnings	Date Approved	Record	Payable	Amount Per share	Total Declared (in millions)
2012	August 7, 2012	August 31, 2012	September 28, 2012	Php 60	Php 12,964
2012	March 5, 2013	March 19, 2013	April 18, 2013	60	12,963
2012	March 5, 2013	March 19, 2013	April 18, 2013	52	11,235
				172	37,162
2013	August 7, 2013	August 30, 2013	September 27, 2013	63	13,611
2013	March 4, 2014	March 18, 2014	April 16, 2014	62	13,395
2013	March 4, 2014	March 18, 2014	April 16, 2014	54	11,667
				179	38,673
2014	August 5, 2014	August 28, 2014	September 26, 2014	69	14,908
2014	March 3, 2015	March 17, 2015	April 16, 2015	61	13,179
2014	March 3, 2015	March 17, 2015	April 16, 2015	26	5,618
				Php 156	Php 33,705

On August 5, 2014, the PLDT Board of Directors approved an amendment to our dividend policy, increasing the dividend payout rate to 75% from 70% of our core EPS as regular dividends. In declaring dividends, we take into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or undertaking share buybacks. We were able to pay out dividends of approximately 100% of our core earnings for seven consecutive years from 2007 to 2013 and approximately 90% of our core earnings for 2014. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, is not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT s transfer agent in Manila, Philippines, which acts as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

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

Dividends Paid

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

		In Philippine Peso	In U.S. Dollars
2010		219.00	4.95
Regular Dividend	April 20, 2010	76.00	1.71
Regular Dividend	September 21, 2010	78.00	1.78
Special Dividend	April 20, 2010	65.00	1.46
2011		222.00	5.10
Regular Dividend	April 19, 2011	78.00	1.80
Regular Dividend	September 27, 2011	78.00	1.78
Special Dividend	April 19,2011	66.00	1.52
2012		171.00	4.04
Regular Dividend	April 20, 2012	63.00	1.48
Regular Dividend	September 28, 2012	60.00	1.44
Special Dividend	April 20,2012	48.00	1.12
2013		175.00	4.16
Regular Dividend	April 18, 2013	60.00	1.45
Regular Dividend	September 27, 2013	63.00	1.45
Special Dividend	April 18, 2013	52.00	1.26
2014		185.00	4.14
Regular Dividend	April 16, 2014	62.00	1.39
Regular Dividend	September 26, 2014	69.00	1.54
Special Dividend	April 16, 2014	54.00	1.21

Dividends on PLDT s common stock were declared and paid in Philippine pesos. For the convenience of the reader, the Philippine peso dividends have been converted into U.S. dollars based on the Philippine Dealing System Reference Rate on the respective dates of dividend payments.

Exchange Rates

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

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

		Year Ended December 31,		
	Period End	**Average(1)**	**High(2)**	**Low(3)**
2010	Php 43.81	Php 45.10	Php 42.52	Php 46.98
2011	43.92	43.28	41.96	44.59
2012	41.08	42.14	40.86	44.25
2013	44.40	42.66	40.57	44.66
2014	44.74	44.45	43.64	44.87
2015 (through March 25, 2015)	44.77	44.39	44.05	45.06

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates on the last day of each month during the period.*
(2) *Highest exchange rate for the period.*
(3) *Lowest exchange rate for the period.*

		Month		
	Period End	**Average(1)**	**High(2)**	**Low(3)**
2014				
September	Php 44.88	Php 44.15	Php 43.56	Php 44.97
October	44.88	44.80	44.62	44.97
November	44.91	44.95	44.87	45.12
December	44.74	44.67	44.51	44.92
2015				
January	44.08	44.57	44.08	45.06
February	44.08	44.22	44.05	44.40
March (through March 25, 2015)	44.77	44.41	44.08	44.83

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates during the month.*
(2) *Highest exchange rate for the month.*
(3) *Lowest exchange rate for the month.*

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2014 of Php44.74 to US$1.00. You should not assume that such Philippine peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 25, 2015, the exchange rate quoted through the Philippine Dealing System was Php44.77 to US$1.00. Unless otherwise specified, the weighted average exchange rate of the Philippine peso to the U.S. dollar for a given year used in the following discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

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

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Risks Relating to Us

We face competition from well-established telecommunications operators and may face competition from new entrants, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

In 1993, the Philippine government liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. At present, following the acquisition of the Digitel Group by PLDT, the number of major players in the industry has been reduced to three LECs, eight IGF providers and two cellular operators in the country. Many entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technology and funding support, as well as service innovations and marketing strategies. We cannot assure you that the number of providers of telecommunications services will not increase in the future or that competition for customers will not cause our cellular and fixed line subscribers to switch to other operators, or otherwise cause us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference. Recently, operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal cellular competitor, Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice and SMS offers. In the meantime, Smart and DMPI are also continually innovating their product and service offerings and conducting promotions, which may positively affect their cellular revenue growth. Due to competition from Globe, as well as over-the-top, or OTT, services, we cannot assure you that the additional marketing expenses incurred by us for these promotions, potential loss of customers, decrease in rates or the increase in capital expenditures required for our continued capacity expansion will not, in each case, have a material adverse effect on our business, results of operations, financial condition or prospects.

We are also facing growing competition from providers offering services using alternative wireless technologies and IP-based networks. Additionally, the Philippine Senate finance committee recommended an increase in the 2015 budget of Department of Science and Technology s Public *WiFi* Program with the aim of providing free public *WiFi* throughout the country starting 2015. We expect market saturation to continue to cause the wireless industry s customer growth rate to be moderate in comparison with historical growth rates, leading to increased competition for customers. We also expect that our customers growing demand for data services will place constraints on our network capacity. This competition and our capacity issues will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and effective marketing of attractive products and services. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices, network deployment and management, and service offerings.

The cellular telecommunications industry may not continue to grow.

The majority of our total revenues are currently derived from the provision of cellular services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. The cellular penetration rate in the country, however, has already reached an estimated 114% as at December 31, 2014, and thus the industry may well be considered mature, although the existence of subscribers owning multiple SIM cards results in this penetration rate being inflated to a certain extent. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer tastes and preferences, and the amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services or otherwise causing the Philippine cellular telecommunications industry to stop growing or reducing the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

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Our results of operations have been, and may continue to be, adversely affected by competition in, and the introduction of new services which could put additional pressures on, the traditional international and national long distance services.

The international long distance business has historically been one of our major sources of revenue. However, due to competition, the reduction in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, and the growing popularity of the so-called OTT service providers that offer social networking, instant messaging and VoIP services, revenues generated from our international long distance business have declined in recent years.

Revenues from international long distance services could further decline significantly in the future for a variety of reasons, such as:

- increases in competition from other domestic and international telecommunications providers;
- advances in technology;
- the continued popularity of alternative providers offering OTT services such as social networking, instant messaging, and internet telephony (also known as VoIP services); or
- other providers of broadband capacity.

The continued high cellular penetration rate in the Philippines and the prevalence of SMS have negatively impacted our national long distance business in recent years. Moreover, net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries, which have been our predominant source of foreign currency revenues, have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from any possible future declines in the value of the Philippine peso against the U.S. dollar. As a result, we cannot assure you that we will be able to adequately increase our other revenues to make up for any adverse impact of a further decline in our net settlement payments. We cannot assure you that we can generate new revenue streams to fully offset the declines in our traditional fixed line long distance businesses, thus, our revenues and profitability could be materially reduced and our growth and prospects could suffer.

Failure to comply with the foreign ownership restrictions under the Philippine Constitution could result in monetary penalties or the revocation of our telecommunications license

Although we currently believe we are in compliance with the foreign ownership restrictions under the Philippine Constitution, if the Philippine SEC or the other relevant authorities in the Philippines determine otherwise, we could be subject to penalties.

Exceeding the foreign ownership restrictions imposed under the Philippine Constitution may subject the Company to (1) sanctions set out in Section 14 of the Philippine Foreign Investments Act of 1991, as amended, comprising a fine not exceeding (a) the lower of (x) 0.5% of the total paid in capital of the Company and (y) Php5 million, in the case of a corpornte entity, (b) Php200,000, in the case of the president of the Company or other responsible officers, and (c) Php100,000, in the case of other natural persons, which we refer to collectively as the Monetary Sanctions, and/or (2) the Philippine government commencing a *quo warranto* case in the name of the Republic of the Philippines against the Company to revoke the Company s franchise that permits the Company to engage in telecommunications activities.

While the law is still unsettled on this issue, we have been advised by our Philippine counsel that once a sufficient number of the Company s shares are issued or transferred to or are otherwise acquired by qualified Philippine nationals so as to result in the Company s foreign ownership percentage being in compliance with the foreign ownership restriction threshold, such a *quo warranto* case would not have merit, and if already initiated, would be subject to dismissal prior to the time that a judgment becomes final and executory. If an adverse decision becomes final and executory without the necessary transfer of shares having been made, the Company would have to secure a new franchise from the Philippine Congress (after the foreign ownership violation has been cured) if it still desires to engage in the telecommunications industry.

In the case of a violation of the foreign ownership restrictions, the Monetary Sanctions would continue to apply notwithstanding any curative issuance or transfer of shares to Philippine nationals.

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

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and CPCNs, which have been granted by the NTC and will expire between now and 2028. Some of PLDT s CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decisions on these applications. Because PLDT filed the applications for extension on a timely basis, we expect that these applications will be granted. However, we cannot assure you that the NTC will grant these applications. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart s franchise is due to expire on March 27, 2017, 25 years after the date on which it was granted. DMPI s CPCN to operate and maintain a nationwide CMTS is for a period coterminous with the life of its existing franchise which is valid until December 11, 2027, 25 years after the date of its issuance.

The NTC also regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or to the reduction in our total revenues or profitability. In addition, the NTC could adopt changes to the regulations or implement additional guidelines governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers. The occurrence of any of these changes could materially reduce our revenues and profitability.

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that the PLDT Group will not be subject to new, increased and/or additional taxes and that the PLDT Group would be able to impose or pass on additional charges or fees on its customers to compensate for the imposition of such taxes. HB No. 701 proposes to require all telecommunication companies to secure business permits and licenses from the local government where their respective cell sites are located. If this bill or any similar bills are enacted into law, such legislation could materially reduce our profitability and have a material adverse effect on our results of operations and financial condition. We cannot assure you that the PLDT Group will be able to impose additional charges or fees on its customers to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

Moreover, as one of the leading telecommunications service providers in the Philippines for fixed line, cellular and broadband services, we are subject to laws and regulations relating to anti-competitive practices and anti-monopoly. For example, Section 700 of NTC Memorandum Circular No. 8-9-95 requires us to seek the approval of the NTC with respect to rates of non-deregulated services in order to ensure that a healthy competitive environment is fostered within the industry. Also, Article II, Section 4 (g) of the Republic Act, or R.A., No. 7925 makes it the policy of the government to pursue a fair and reasonable interconnection of authorized public network operators and other providers of telecommunications services in order to achieve a viable, efficient, reliable and universal telecommunications services. The executive branch of the government has also exhibited strong interest in enforcing anti-competitive and anti-monopolistic measures with the signing by the President of the Philippines of Executive Order, or E.O., No. 45 on June 9, 2011. E.O. No. 45 designated the Department of Justice, or the DOJ, as the competition authority of the Philippines and established the Office for Competition under it to, among other things, investigate violations of competition laws and prosecute violators thereof. The DOJ s Department Circular No. 11 implementing E.O. No. 45 took effect on March 1, 2013. While our business practices have not in the past been found to have violated any laws and regulations related to anti-competition and anti-monopoly, we cannot assure you that the relevant governmental regulators will not, in the future, find our business practices to have an anti-competitive effect on the Philippines telecommunications industry, nor can we assure you that we will not be found to have violated the relevant laws and regulations relating to anti-competition and anti-monopoly in the future. For example, prior to the acquisition of the Digitel Group, there were four major LECs (PLDT, Digitel, Innove Communications, Inc. and Bayan) and three cellular service providers (Smart, DMPI and Globe) in the Philippines. On October 26, 2011, we completed the acquisition of the Digitel Group, the operator of *Sun Cellular*, one of the two other major cellular service providers in the Philippines. As a result of the acquisition, the number of LECs and cellular service providers in the Philippines was reduced to three and two, respectively, leaving Globe as our sole major competitor in the cellular service market. In order to mitigate the apparent anti-competitive effect of the acquisition, we agreed, as part of the NTC s decision to grant its consent for the acquisition, to divest ourselves of the frequency spectrum and associated licenses held by CURE, one of Smart s subsidiaries. Any future expansion in our services, particularly in our cellular services, could subject us to additional conditions in the granting of our provisional authorities by the NTC and to increased regulatory scrutiny, which could harm our reputation and business, and which could have a material adverse effect on our growth and prospects. In addition, the occurrence of any such event could impose substantial costs or cause interruptions or considerable delays in the provision, development or expansion of our services. Delay or failure to receive any required franchises, licenses or regulatory approvals could result in the suspension of our services or abandonment of any planned expansions, thereby affecting our business, results of operations, financial condition and prospects.

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The NTC may implement proposed changes in existing regulations and introduce new regulations, which may result in increased competition and/or changes in rates, each of which could have a material adverse effect on our revenues and profitability.

The NTC may regulate the rates and manner in which we operate and charge our customers.

On July 23, 2009 the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart and DMPI, to bill subscribers on a maximum six-second per pulse basis instead of the previous per minute basis. The NTC granted Smart and DMPI the provisional authority to charge new rates for the CMTS service and also directed Smart and DMPI to implement a six-second per pulse billing scheme on December 5, 2009. The implementation of this billing scheme is now pending with the Philippine Supreme Court after Smart and DMPI filed their petitions for review of the decision of the Court of Appeals on March 15, 2012 and March 12, 2012, respectively.

On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 directing the reduction of interconnection charges for SMS between two separate networks from Php0.35 to Php0.15 per SMS. The NTC has interpreted this circular to require a reduction in SMS rates charged to end users. Therefore, it initiated administrative cases against the mobile operators for the latter s failure to implement reduced SMS charges. On November 20, 2012, the NTC rendered a decision directing Smart to reduce the retail price of users sending regular SMS to users on other networks from Php1.00 to Php0.80 or less; refund or reimburse its subscribers for the excess Php0.20 per off-network SMS; pay a fine of Php200 per day from December 1, 2011 until the date of compliance with the decision; and submit documents, records and reports pertaining to SMS sent to other networks. Smart filed a motion for reconsideration which was subsequently denied by the NTC in its resolution dated May 7, 2014. Smart then filed a petition for review at the Court of Appeals of the Philippines, or the Court of Appeals. On October 17, 2014, the 6th division of the Court of Appeals issued a resolution granting the temporary restraining order requested by Smart and directing the NTC not to enforce its decision and resolution. In a resolution promulgated on November 28, 2014, the Court of Appeals ordered the consolidation of Globe s petition with Smarts s and DMPI s petitions. The application for preliminary injunction remains pending.

The NTC may call on carriers, other industry players and the public in general to attend public hearings with respect to certain proposed regulations affecting the industry in general or solicit comments from these groups with respect to consultative documents issued by the NTC on major industry issues, such as the August 2006 significant market power, or SMP, obligations, which were revived again during the pendency of PLDT s acquisition of the Digitel Group in 2011. Under said consultative documents, for example, certain obligations are proposed to be imposed on carriers with SMP by using a roadmap which consists of the following critical processes: (1) defining markets to be used as basis for regulatory intervention; (2) determining if one or several operators in the defined markets have the degree of market power that merit regulatory intervention; (3) identifying appropriate SMP obligations to achieve policy objectives; and (4) determining conditions that justify withdrawal of regulation.

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

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On December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge between LEC and CMTS to Php2.50 per minute from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, PLDT and Smart individually filed on February 1, 2012 and January 20, 2012, respectively, separate motions for reconsideration arguing (among other things) that interconnection, including the rates thereof, should be, by law, a product of bilateral negotiations between the parties and that the decision to set lower rates was unconstitutional as an invalid exercise by the NTC of its quasi-legislative powers and violates the Philippine constitutional guarantee against impairment of contracts. The NTC denied the motion and PLDT and Smart appealed to the Court of Appeals, reiterating among other things, that the NTC erred in ruling that all LECs are automatically entitled to a cross-subsidy; that the NTC decision violates PLDT and Smart s right to due process; and that the NTC decision violates the Philippine constitutional proscription against impairment of contracts. On December 12, 2014, the Court of Appeals granted Smart s petition for review and set aside the NTC decision dated December 19, 2011.

A summary of the existing material regulations on our business is set forth in Item 1. *Description of Business Material Effects of Regulation on our Business* . Due to the regulatory power of the NTC, as described above, we cannot assure you that the NTC will not impose changes to the current regulatory framework in the future, which could lead to increased competition or negatively affect the rates we can charge for our services. Any of these events could have a material adverse effect on our business, results of operations and prospects.

The franchise of Smart and DMPI may be revoked due to their failure to conduct a public offering of their shares.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act of the Philippines, or R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges of its shares representing at least 30% of its aggregate common shares within five years from: (a) the date the law became effective; or (b) the entity s commencement of commercial operations, whichever date is later. As of the latest practicable date, Smart and DMPI have yet to conduct a public offering of their shares. Consequently, the Philippine Congress may revoke the franchise of Smart and DMPI for their failure to comply with the requirement under R.A. 7925 to conduct a public offering of their common shares. A *quo warranto* case may also be filed against Smart and DMPI by the Office of the Solicitor General of the Philippines for the revocation of the respective franchises of Smart and DMPI on the ground of the violation of R.A. 7925.

Although the position taken by Smart and DMPI is that these provisions of R.A. 7925 are merely directory and that the policy underlying the requirement for telecommunication entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000 and Digitel in 2011, which is now majority-owned by PLDT, and which in turn owns a 99.6% equity interest in DMPI, since PLDT was then and continues to be a publicly listed company, there can be no assurance that the Philippine Congress will agree with such position. In September 2004, Senate Bill No. 1675 was filed seeking to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. However, we cannot assure you that such bill will be enacted or that the Philippine Congress will not revoke the franchise of Smart and DMPI or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart and DMPI for the revocation of their respective franchises for failure to comply with the provisions of R.A. 7925 relating to the public offering of shares, the occurrence of any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

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If we fail to effect the divestment of CURE in accordance with the terms of, or in a manner contemplated under the NTC s approval of our acquisition of the Digitel Group, the NTC may revoke its approval of any relevant franchises, licenses or permits held by Smart, any of which could significantly disrupt our operations and have a material adverse effect on our business, results of operations, financial condition and prospects.

As part of the NTC s decision to grant its consent to our acquisition of the Digitel Group, we agreed to divest ourselves of the frequency spectrum and associated franchises, licenses and permits held by CURE. Under the terms of the order issued by the NTC on October 26, 2011, (i) CURE is obligated to sell its *Red Mobile* business to Smart; and (ii) Smart is obligated to sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, certain frequency spectrum and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE s only remaining assets as at June 30, 2012 were its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE s shares of stock to the winning bidder and submitted CURE s audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the commissioners of the NTC. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

As at March 26, 2015, CURE is still waiting for NTC s advice on how to proceed with the planned divestment.

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

We cannot assure you that we will be able to effect the divestment of CURE within the time or in a manner contemplated under the order issued by the NTC. If we fail to effect the divestment of CURE in accordance with the terms of, or in a manner contemplated under, the NTC s approval of our acquisition of the Digitel Group, the NTC may revoke its approval or any relevant franchises, licenses or permits held by Smart, any of which could significantly disrupt our operations and have a material adverse effect on our business, results of operations, financial condition and prospects.

Rapid changes and advancements in telecommunications technology may adversely affect the economics of our existing businesses and the value of our assets, increase our required capital expenditures and create new competition.

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The global telecommunications industry has been characterized by rapid technological changes and advancements, and the Philippine market is not an exception. We cannot assure you that these developments will not result in competition from providers of new telecommunications services or the need to make substantial capital expenditures to transform our existing network infrastructure. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, in respect of which we have made significant investments. We are also continuing to upgrade our fixed-line network to a next generation, all-IP network, expand our wireless broadband network in order to enhance our capability to provide broadband services, and upgrade and modernize our wireless cellular network in order to achieve greater operating and cost-efficiencies. However, these projects require and will continue to require, significant capital expenditures over the next few years.

Changes in available technology could increase competition and our capital costs, and if we are not able to adapt to changes in technology and address changing consumer demand on a timely basis, we may experience a decline in the demand for our services, be unable to implement our business strategy and experience reduced profits.

The rapid development of new technologies, new services and products, and new business models has begun to eliminate the distinctions between traditional, local, long distance, wireless, cable and internet communication services and bring new competitors into the telecommunications market. As a result, we are subject to increasing competition from providers offering telecommunications services using alternative technologies. These new competitors, which include ISPs, mobile device manufacturers and mobile software and application developers, compete against us in both voice and data businesses by offering mobile internet access, alternative voice and messaging services, OTT products, and other mobile services and are gaining an increasing share of the telecommunications industry value chain.

Our future success will depend on our ability to anticipate and adapt to these changes and to offer services that meet the demands of our customers on a competitive and timely basis. However, we may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to our business model, negatively impact our existing businesses or necessitate new acquisitions or investments. In addition, there could be legal or regulatory restraints on our introduction of new services. New products and services may also be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require us to incur significant additional capital expenditures. As a result, we cannot assure you that we would be able to adopt or successfully implement new technologies, nor can we assure you that future technological changes will not adversely affect our operations or the competitiveness of our services.

In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits. There could also be legal or regulatory restraints on our ability to phase out current services.

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

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As growth slows or reverses in our traditional fixed line and cellular businesses, and as part of our strategy to grow other business segments, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. Since 2010, we have made a number of significant acquisitions and investments in businesses within and ancillary to the telecommunications sector, including an investment in shares of Meralco through PCEV in 2010, the acquisition of the Digitel Group in 2011, an investment in PDRs of MediaQuest (the ultimate parent company of Cignal TV, a direct-to-home pay-TV business) in 2012, and other smaller investments in various businesses. Most recently, we completed a 333 million, or Php19,577 million, investment in Rocket and entered into a joint venture agreement with Rocket to form MePay Global (see See Item 4. Information on the Company Development Activities (2012-2014) for further information on our investment in Rocket and MePay Global). The success of our acquisitions and investments depends on a number of factors, such as:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

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

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

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

- shortages of equipment, materials and labor;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- unforeseen engineering, environmental and geological problems; and

unanticipated cost increases.

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

Our businesses depend on the reliability of our network infrastructure which is subject to physical, technological and other risks.

We depend, to a significant degree, on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include but are not limited to:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

The occurrence of any of the above events could have a material adverse effect on our ability to provide services to customers. While we are undertaking initiatives to prevent and/or mitigate the occurrence of these events, including the preparation of a disaster recovery plan that aims to allow restoration of service at the earliest possible time from occurrence of an incident, there can be no assurance that these events will not occur or that our initiatives will be effective should such events occur.

We are exposed to cyber security risks, which may include the gaining of unauthorized access to our networks by third parties; corruption of our data; and theft of intellectual property, stakeholder information or other sensitive data, the occurrence of any of which could significantly disrupt our business and have a material adverse effect on our results of operations and stakeholder confidence.

Over the years, our continued dependence on the latest digital technologies in conducting our operations exposes our business to risks associated with cyber incidents. These cyber incidents may range from unintentional events to deliberate attacks. These may be carried out by parties with the intention to bring about something as simple as plain disruption of our operations to something as destructive as breaching our network security and acquiring personal information on our subscribers. To date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, have had a material impact on our operations or financial condition. However, some network attacks can cause our telecommunications services or internal systems to be unavailable. Others, such as spam, could disrupt our business communication. Some network attacks, such as brute force attacks, could even cause the disclosure of confidential information.

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In order to minimize our exposure to cyber security risks, we have deployed a multi-layered defense mechanism from the network to the host and up to the application level, so that if one defensive measure fails, there are other defensive measures which will continue to provide protection. However, we cannot assure you that any of such defenses will be effective against or neutralize the effects of any cyber incidents resulting from unintentional cyber security breaches or deliberate attacks on our network infrastructure or computer systems, nor can we assure you that our business will not be significantly disrupted in the event of such security breach or attack. If we fail to timely and effectively prevent the occurrence of any such cyber security incidents, or fail to promptly rectify any such incidents, our business could be significantly disrupted, our results of operations could be materially and adversely affected, and the confidence of our stakeholders could be lost.

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

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart s projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php34,759 million, Php28,838 million and Php36,396 million for the years ended December 31, 2014, 2013 and 2012, respectively. We currently estimate that our consolidated capital expenditures in 2015 will be approximately Php39 billion, of which approximately Php26 billion is estimated to be spent by our wireless segment and approximately Php13 billion is estimated to be spent by our fixed line segment. Our wireless segment s capital spending is currently anticipated to focus on building out coverage, leveraging the capabilities of its newly modernized network and expanding 3G, fourth generation, or 4G, LTE including its backhaul and wireless broadband networks in order to enhance data transmission capabilities. We also contemplate enhancing network and platforms infrastructure and systems to support solutions deployment, campaign analytics and service delivery to enable customized and targeted services, as well as to further expand mainstream services and integration with the PLDT Group core and transmission network to increase penetration, mainly in provincial areas to achieve greater business benefits from a closely synergized environment. Our fixed line segment s capital spending is currently intended principally to continue the build-out and upgrade of broadband data and IP infrastructures, fixed line data services, expanding transmission network, increasing international bandwidth capacity, and network maintenance.

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

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

As at December 31, 2014 and 2013, our consolidated long-term debt amounted to Php130,123 million and Php104,090 million, respectively, and accounted for 0.97x and 0.76x debt to equity ratio, respectively, calculated as long-term debt on a consolidated basis divided by total equity attributable to equity holders of PLDT. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of PFRS at relevant measurement dates, principally at the end of each quarter period. For a description of some of these covenants, see *Note 21 Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

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

The principal factors that could negatively affect our ability to comply with the financial ratio covenants and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Of our total consolidated debts, 47% and 57% were denominated in foreign currencies as at December 31, 2014 and 2013, respectively, principally in U.S. dollars, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso.

We have maintained compliance with all of our financial ratios and covenants, as measured under PFRS, under our loan agreements and other debt instruments. However, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants. Inability to comply with the financial ratios and covenants could result in a declaration of default and acceleration of maturities of some or all of our indebtedness.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness, which could have a material adverse effect on our business, results of operations and financial condition.

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

A substantial portion of our indebtedness, related interest expenses, our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, whereas most of our revenues are denominated in Philippine pesos. As at December 31, 2014, 47% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 40% of our total consolidated indebtedness was unhedged. As at December 31, 2013, approximately 57% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 48% of our total consolidated indebtedness was unhedged.

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

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Approximately, 20% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to the U.S. dollar for the year ended December 31, 2014 as compared with approximately 21% in each of the years ended December 31, 2013 and 2012. Approximately 10% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar for the year ended December 31, 2014 as compared with approximately 11% and 12% for the years ended December 31, 2013 and 2012, respectively. In this respect, the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso has been subject to significant fluctuations in recent years. From 2009 to 2012, the Philippine peso appreciated from Php47.26 as at January 5, 2009 to Php41.08 as at December 31, 2012 and a high of Php40.86 on December 5, 2012, only to depreciate by approximately 8% to Php44.40 as at December 31, 2013 and further depreciated by 1% to Php44.74 as at December 31, 2014. We cannot assure you that the Philippine peso will not depreciate further and be subject to significant fluctuations going forward, due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- global economic and financial trends;
- the volatility of regional currencies, particularly the Japanese yen and Euro;
- any interest rate increases by the Federal Reserve Bank of the United States; and
- changes in the value of the U.S. dollar relative to Philippine peso, resulting from events such as higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

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

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

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

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

A significant number of shares of PLDT s voting stocks (common and voting preferred stocks) are held by four shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT.

The First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT s outstanding common stock (representing 15.1% of our overall voting stock) as at January 31, 2015, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition. This is the largest block of PLDT s common stock that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at January 31, 2015, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT s outstanding common stock (representing 12% of our overall voting stock), taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at January 31, 2015, the JG Summit Group owned approximately 8% of PLDT s outstanding common shares (representing 4.7% of our overall voting stock).

The FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. See Item 7. Major Shareholders and Related Party Transactions for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT, and the rights granted pursuant to the Cooperation Agreement, Strategic Agreement and the Shareholders Agreement:

Additionally, PLDT s shares of voting preferred stock which represents approximately 41% of total outstanding shares of voting stocks are owned by a single stockholder, BTFHI.

As a result of their respective stockholdings, the FP Parties and/or NTT Communications and/or NTT DOCOMO and/or BTFHI are able to influence our actions and corporate governance, including:

- elections of PLDT s directors; and

- approval of major corporate actions, which require the vote of holders of common and voting preferred stocks.

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

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

Effective internal control over financial reporting is necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we are unable to provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

We are required to comply with various Philippine and U.S. laws and regulations on internal control. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the calendar year ended December 31, 2006, we have been required to include a report on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management on the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must express an opinion on our internal control over financial reporting based on its audits.

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

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

As at December 31, 2014, PLDT has three employee unions, representing in the aggregate 5,877, or 34%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our operating expenses and adversely affect our profitability. Each of our different employee groups may require separate collective bargaining agreements. If any group of our employees and PLDT are unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

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

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PLDT is involved in legal proceedings with various parties regarding the Philipine SEC Guidelines, which was issued in response to the decision in the Gamboa Case. On June 10, 2013, Jose M. Roy III filed a petition with the Supreme Court against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT. The petition questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine company pursuant to the decision in the Gamboa Case and Section 11, Article XII of the Constitution. PLDT filed its challenge to the petition on September 5, 2013. On February 10, 2015 PLDT filed a consolidated memorandum setting forth its arguments against the petition. The resolution of the Jose M. Roy III Petition remains pending with the Supreme Court and is currently expected to occur before the end of 2015.

In January 2012, Smart and DMPI filed answers to a December 2011 show cause order by the NTC which required an explanation of why SMS retail rates were not lowered after the NTC issued Memorandum Circular No. 02-10-2011, which mandates that interconnection charge for SMS between two separate networks shall not be higher than Php0.15 per SMS. The outcome of the proceedings remains pending.

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

For more information on PLDT s legal proceedings, see Item 8. Financial Information Legal Proceedings. While PLDT believes the positions it has taken in these cases are legally valid but the final results of these cases may prove to be different from its expectations. In addition, there is no assurance that PLDT will not be involved in future litigation or other disputes, the results of which may materially and adversely impact its business and financial conditions.

Risks Relating to the Philippines

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

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

In 2013, a major Philippine newspaper exposed a scam relating to the diversion and misuse of the Priority Development Assistance Fund, or PDAF, by some members of Congress through a pseudo-development organization headed by Janet Lim Napoles. As a result of this exposé, a number of investigations, including one in the Senate of the Philippines, have been launched to determine the extent of the diversion of the PDAF and the government officials and the private individuals responsible for the misappropriation of public funds. Cases of plunder and malversation of public funds are now pending against Janet Lim Napoles, three senators, a few members of the House of Representatives, and other private individuals.

We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the telecommunications and other companies.

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

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

suspend temporarily or restrict sales of foreign exchange;

require licensing of foreign exchange transactions; or

require the delivery of foreign exchange to the BSP or its designee banks.

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

The occurrence of natural catastrophes could materially disrupt our operations.

The Philippines has experienced a number of major natural catastrophes over the years, including floods, volcanic eruptions, earthquakes and typhoons, a recent example of which was Typhoon Yolanda (international name Haiyan) in November 2013. Typhoon Yolanda was the world s strongest typhoon to date and caused massive destruction in the Visayan provinces. In 2014, a number of strong typhoons damaged many parts of the country, primarily the central Philippines and significant areas in Luzon. The frequency and severity of natural catastrophes and the challenges that arise from them may be further exacerbated as a result of global climate change. We cannot assure you that we are fully capable of addressing the impact of these occurrences or that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes, in which our business operations may be materially and adversely affected.

Continued terrorist activities in the Philippines could destabilize the country, adversely affecting our business environment.

Certain islands in the Philippines have been subject to a number of terrorist attacks and violent crimes in recent years. An increase in the number of terrorist attacks or violent crimes, or the occurrence of a large-scale terrorist attack, in the Philippines could negatively affect the Philippine economy and, therefore, our business, financial position and financial performance. In January of 2015, 44 members of the Philippines elite special action force, known as the SAF 44, were killed in combat while pursuing terrorists residing in the southern part of the country. This happened at a time when the Philippine government and the Moro Islamic Liberation Front, or the MILF, were rumored to be close to reaching agreement on the terms of the Bangsamoro Basic Law, the would-be governing law of the Bangsamoro political entity. While the MILF denied these attacks on the SAF 44, the Bangsamoro Islamic Freedom Fighters (a MILF breakaway group) is rumored to be responsible for them.

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Additionally, the Philippine army has been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for kidnapping and terrorist activities in the Philippines. There has also been a series of bombings in the Philippines, mainly in southern cities. Although no one has claimed responsibility for these attacks, Philippine military officials have stated that the attacks appeared to be the work of the Abu Sayyaf organization. There have also been a number of other violent crimes in the Philippines, including an additional series of bombings in the cities of Cagayan de Oro and Cotabato City, and in other areas in Maguindanao and North Cotabato provinces, all located in Mindanao.

There can be no assurance that the Philippines will not be subject to further, or an increased number of, acts of terrorism or violent crimes in the future. Terrorist attacks and violent crimes have had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy in the past and in turn, our business, financial position and financial performance. Furthermore, there can be no assurance that the Philippines will not suffer a large-scale terrorist attack which could impact the Philippine economy for a significant period of time.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea (UNCLOS). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal during later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China s presence there. In January 2013, the Philippines instituted arbitration proceedings under UNCLOS and sent notice to the Chinese embassy in Manila. China has rejected and returned the notice sent by the Philippines to initiate arbitral proceedings. In May 2013, the Philippine Coast Guard shot and killed a Taiwanese fisherman in an area of the South China Sea claimed as an exclusive economic zone by both countries.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. In January 2014, China imposed a fishing permit rule in the South China Sea, which has resulted in Philippine ships being expelled from the Ayungin Shoal in the Spratly group of islands by the Chinese Coast Guard. The Philippines has since filed a case against China with the International Court of Justice as a result of these actions.

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In May 2014, Vietnamese ships collided with Chinese vessels in an area that both nations lay claim to, and where China is said to be setting up an oil rig. Also in May 2014, a Vietnamese fishing boat sank near the oil rig, and Vietnam released video footage showing a Chinese vessel gunning down the Vietnamese fishing boat. This incident has caused serious concerns for other Asian countries.

Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other s imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect our business, financial position and financial performance.

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

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

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

Historically, the Philippines sovereign debt has been rated non-investment grade by international credit rating agencies. Although during 2014, the Philippines long-term foreign currency-denominated debt was affirmed by Fitch as investment-grade with a rating of BBB, and Standard and Poor s and Moody s upgraded the Philippines long-term foreign currency-denominated debt to the investment-grade rating of BBB+ and Baa2, respectively, the continued relatively low sovereign ratings of the Philippine Government will directly and adversely affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody s, Standard & Poor s or any other international credit rating agency will not downgrade the credit ratings of the Philippine Government in the future and, therefore, Philippine companies, including PLDT. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Philippine Government and Philippine companies, including PLDT, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

Risks Relating to Our Securities

PLDT is required to comply with foreign ownership restriction under the Philippine Constitution. At present, PLDT believes it has complied with such restrictions; however, there can be no assurance that further interpretations of the Philippine Constitution will not require PLDT to take further actions to be compliant with such foreign ownership restrictions.

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Section 11, Article XII of the 1987 Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. On June 28, 2011, the Philippine Supreme Court promulgated a decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the *Gamboa Case*), where it ruled that the term capital in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares).

On October 16, 2012, BTFHI subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT. As a result of the issuance of the shares of Voting Preferred Stock, PLDT s foreign ownership decreased from 58.4% of outstanding common stock as at October 15, 2012 to 34.5% of outstanding voting stocks (common stock and Voting Preferred Stock) as at October 16, 2012.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which we believe was intended to fulfill the Philippine Supreme Court s directive to the Philippine SEC in the Gamboa Case. The Philippine SEC Guidelines provide that All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. PLDT believes it was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of December 31, 2014, PLDT s foreign ownership was 32.13% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.66% of its total outstanding capital stock. Therefore, we believe that as of the date of this report, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution. See *Note 27 Provisions and Contingencies Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

However, we cannot assure you that the Philippine SEC or the other relevant authorities in the Philippines will view shares of Voting Preferred Stock issued to BTFHI as shares of stock owned by Filipinos entitled to vote in the election of directors for the purpose of determining whether PLDT is in compliance with the 60% to 40% Filipino-alien equity requirement as provided under the Philippine Constitution. As a result, PLDT may be subject to certain sanctions imposed by the Philippine SEC, which may have a material and adverse impact on our reputation, business, financial position and prospects.

Item 4. Information on the Company

Overview

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments (Wireless, Fixed Line and Others), we offer the largest and most diversified range of telecommunications services across the Philippines most extensive fiber optic backbone and wireless, fixed line and satellite networks.

We are the leading fixed line service provider in the Philippines accounting for approximately 70% of the total reported fixed line subscribers nationwide as at December 31, 2014. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 61% of total reported cellular subscribers nationwide as at December 31, 2014. We have interests in the BPO sector, including the operation of our customer relationship management and knowledge processing solutions business. In December 2012, our Board of Directors authorized the sale of our BPO business and our BPO segment was classified as a discontinued operation. The sale was completed in April 2013 and US$40 million was reinvested in the BPO business. See Item 4. Information on the Company Sale of BPO Segment for further discussion.

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

We had a market capitalization of approximately Php627,858 million, or US$14,033 million, as at December 31, 2014, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues, including revenues from discontinued operations, of Php170,962 million, or US$3,821 million, and net income attributable to equity holders of PLDT of Php34,091 million, or US$762, million for the year ended December 31, 2014.

We operate under the jurisdiction of the NTC, which jurisdiction extends, among other things, to approving major services that we offer and rates that we can charge.

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT s corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT s incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications investment in PLDT, the latter acquired 100% of Smart. On March 14, 2006, NTT DOCOMO acquired from NTT Communications approximately 7% of PLDT s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT s outstanding common stock as at December 31, 2014. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised the First Pacific Group and its Philippine affiliates beneficial ownership to approximately 28% of PLDT s outstanding common stock as at that date. Since then, First Pacific s beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% of PLDT s outstanding common stock as at December 31, 2014. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

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

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. According to public filings, as at January 31, 2015, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO, together with NTT Communications) beneficially owned approximately 8%, 26% and 20% of PLDT s outstanding common shares, respectively.

On October 16, 2012, BTFHI subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2014.

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

Recent Developments

Investment in MePay Global

On January 6, 2015, PLDT, through Smart, entered into a joint venture agreement with Rocket, pursuant to which the two parties agreed to form MePay Global, of which each partner will hold a 50% equity interest. MePay Global is a joint venture for payment services with a focus on emerging markets. Smart will contribute the intellectual property, platforms and business operations of its market-leading mobile-first platform, SMI, a wholly-owned subsidiary of Smart, to the venture. Rocket will contribute, among other things, its participations in Paymill Holding GmbH and Payleven Holding GmbH, two of the leading payment platforms for high growth, small-and-medium sized e-commerce businesses across Europe. Subject to the approval of the relevant authorities, this transaction is expected to be completed in the first quarter of 2015. A copy of the joint venture agreement is furnished under Item 19. Exhibits .

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Investment in PHIG

On January 20, 2015, PLDT and Rocket entered into another joint venture agreement to further strengthen their existing partnership and to foster the development of internet-based businesses in the Philippines. PLDT, through Voyager and Asia Internet Holding S.à r.l., which is 50%-owned by Rocket, will become partners in PHIG.

PHIG will concentrate on creating and developing online businesses in the Philippines, leverage local market and business model insights, facilitate commercial, strategic and investment partnerships, enable local recruiting and sourcing, accelerate the rollout of online startups and drive the activities of high-growth companies which are already operating in the Philippines (such as Lamudi, Carmudi, Clickbus and Pricepanda), with plans to launch numerous new companies in the coming quarters.

PLDT will invest 30 million for a 33.33% ownership stake in PHIG and will have the option to increase its investment to 50%. Subject to the approval of the regulatory authorities, this transaction is expected to be completed in the first quarter of 2015.

Business Overview

As at December 31, 2014, our Management Committee categorized our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which was completed in April 2013. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012. The results of operations of our BPO business for the four months ended April 30, 2013 and the year ended December 31, 2012 have been presented as discontinued operations. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations* and *Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

The Management Committee monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. See *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

Wireless

We provide cellular, wireless broadband, as well as satellite and other services through our wireless business, which contributed approximately 90% and 10% of our wireless service revenues, respectively, in 2014. In previous years, rapid growth in the cellular market resulted in a change in our revenue composition, with cellular service revenues surpassing fixed line revenues to become our largest revenues source. During 2014, however, the rate of growth in the cellular market has decreased. Wireless revenues contributed 64% of our total revenues in 2014 as compared to 65% and 66% for the years 2013 and 2012, respectively. Our cellular service revenues were 87% of our total wireless revenues, which include service and non-service revenues in 2014, 89% and 90% in 2013 and 2012, respectively.

Our cellular service, which accounted for approximately 90% of our wireless service revenues for the year ended December 31, 2014, is provided through Smart and DMPI with 69,857,060 total subscribers as at December 31, 2014 as compared to 70,045,627 total subscribers as at December 31, 2013, representing a combined market share of approximately 61% as at December 31, 2014 as compared to 64% as at December 31, 2013. Cellular penetration in the Philippines increased to approximately 114% as at December 31, 2014 from 108% as at December 31, 2013, and accounts for approximately 36 times the country s fixed line penetration, although the existence of subscribers owning multiple SIM cards results in this penetration rate being inflated to a certain extent.

Approximately 96% and 89% of Smart and *Sun Cellular* subscribers, respectively, as at December 31, 2014 were prepaid service subscribers. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market, allowing us to increase and broaden our subscriber base without handset subsidies and reduce billing and administrative costs on a per-subscriber basis, as well as to control credit risk. We have also retained our dominance in the postpaid service. Our combined Smart and *Sun Cellular* postpaid subscribers have increased by 16% or 387,571, to 2,765,488 in 2014, representing a market share of approximately 55%.

In 2014, the growth of smartphone users resulted in significant increase in our mobile internet revenues. On September 26, 2014, we launched our *Free Mobile* internet promo whereby subscribers can avail themselves of 30MB of data usage per day, enabling them to use their social networking sites, read news and entertainment sites, send and receive email, stream music through Spinnr (an online music portal), and shop online. The offer excludes the use of VoIP and messaging applications, as well as peer-to-peer file sharing applications. The promo was originally effective until February 5, 2015 but was extended until February 28, 2015, with video streaming made available during the extension period. Our mobile internet revenues, which are part of our cellular data services revenues, increased by Php3,111 million, or 63%, to Php8,079 million in 2014 from Php4,968 million in 2013. Our mobile internet revenues contributed 16% and 10% of our cellular data service revenues in 2014 and 2013, respectively. Text messaging, which remains popular in the Philippines, contributed 81% and 87% of our cellular data service revenues in 2014 and 2013, respectively.

Smart s cellular network is the most extensive in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz BTS in dense urban areas and deploy its 900 MHz BTS on a relatively more economical basis in potentially high growth, but less densely populated provincial areas. We have installed a third-generation, or 3G, network based on a W-CDMA technology and are currently upgrading our wireless broadband facilities. With 26,242 cellular/broadband base stations, which includes 11,083 active 4G/HSPA+/LTE base stations, as at December 31, 2014, our cellular network covers approximately 95% of all towns and municipalities in the Philippines.

DMPI is transforming its transmission backbone network from a linear architecture to a ring topology synergizing with the Smart network, which allows for greater redundancy to ensure service reliability and quality. Additionally, DMPI developed an advanced 3G network that is currently operational in various provinces nationwide. We believe DMPI has developed an advanced network infrastructure that is highly efficient and can be easily scaled to accommodate increased subscriber base for its 2G and 3G business and increased network traffic from unlimited plans offered to subscribers of *Sun Cellular*.

As at December 31, 2014, Smart and DMPI have completed their unified network project in Mindanao and a large part of the Visayas region. The network synergy has generated savings in terms of capex optimization, cost efficiencies and reductions in cost duplications, and is expected to further increase upon completion of the project in 2016.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country, servicing retail, corporate and SME clients. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 2,207,889 fixed line subscribers as at December 31, 2014, an increase of 138,470 from the 2,069,419 fixed line subscribers as at December 31, 2013, mainly due to higher net additions in 2014 compared with 2013. Total revenues from our fixed line was 36% of our total revenues for the year ended December 31, 2014, 35% and 34% in the years ended December 31, 2013 and 2012, respectively. National long distance revenues have been declining largely due to a drop in call volumes as a result of continued popularity of alternative means of communications such as texting, e-mailing and internet telephony. An increase in our data and other network service revenues in recent years have mitigated such decline to a certain extent. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new data-capable and IP-based networks.

Our 11,807-kilometer long DFON is complemented by an extensive digital microwave backbone network operated by Smart. This microwave network complements the higher capacity fiber optic networks and is vital in delivering reliable services to areas not covered by fixed terrestrial transport network. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country s most extensive connections to international networks through two international gateway switching exchanges and various regional submarine cable systems in which we have economic interests.

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

Others

Other business consists primarily of PCEV, an investment holding company which has a 22.48% interest in Meralco shares through its 49.96% equity interest in Beacon s outstanding common stock and preferred stock; PGIC, which owns an 18.24% economic interest in Beta, an investment holding company of SPi Technologies, Inc., or SPi, and its subsidiaries, or SPi Group, where we reinvested approximately US$40 million of the proceeds from the sale of BPO in 2013; and PLDT Digital, an investment holding company, which owns a 6.1% equity interest in Rocket Internet AG, or Rocket, through its wholly-owned subsidiary, PLDT Online.

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Capital Expenditures and Divestitures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for information concerning our principal capital expenditures for the years ended December 31, 2012, 2013 and 2014 and those planned for 2015. See Item 4. Development Activities (2012-2014) Divestment of CURE for the discussion of our recent divestitures.

Organization

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the PLDT Group) as at December 31, 2014 and 2013:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	100.0		100.0	
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services		100.0		100.00
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		100.0		100.00
I-Contacts Corporation	Philippines	Call center services		100.0		100.00
Smart e-Money, Inc., or SMI, (formerly Smarthub, Inc.)[(a)]	Philippines	Provide and market certain mobile payment services		100.0		100.00
Smart Money Holdings Corporation, or SMHC	Cayman Islands	Investment company		100.0		100.00
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		100.0		100.00
PH Communications Holdings Corporation	Philippines	Investment company		100.0		100.00
Francom Holdings, Inc.:	Philippines	Investment company		100.0		100.00
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services		100.0		100.00
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services		100.0		100.00
elnnovations Holdings Pte. Ltd. (formerly Smarthub Pte. Ltd., or SHPL)[(b)]:	Singapore	Investment company		100.0		100.00
Takatack Pte. Ltd., or Takatack, (formerly SmartConnect Global Pte. Ltd.)[(c)]	Singapore	Development of leading enhanced data rates for GSM evolution, voice communications and information technology, or IT, based solutions		100.0		100.00
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		85.0		85.0
Voyager Innovations, Inc., or Voyager[(d)]	Philippines	Mobile applications development and services		100.0		100.00
Wifun, Inc., or Wifun[(e)]	Philippines	Software developer and selling of *WiFi* access equipment		87.0		
Telesat, Inc.[(f)]	Philippines	Satellite communications services	100.0		100.0	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of	Philippines	Cellular mobile services		99.6		99.6

Digitel)

Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	100.0
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	100.0
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	100.0	100.0
Smart-NTT Multimedia, Inc.[f]	Philippines	Data and network services	100.0	100.0
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	100.0
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	100.0	100.0
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group[g]	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	100.0	100.0

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Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect
iPlus Intelligent Network, Inc., or iPlus[h]	Philippines	Managed IT outsourcing				100.0
Curo Teknika, Inc., or Curo[i]	Philippines	Managed IT outsourcing		100.0		100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group[j]	Philippines	Internet-based purchasing, IT consulting and professional services		99.8		99.2
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS		67.0		67.0
netGames, Inc.[f]	Philippines	Gaming support services		57.5		57.5
Digitel:	Philippines	Telecommunications services	99.6		99.6	
Digitel Capital Philippines Ltd., or DCPL[k]	British Virgin Islands	Telecommunications services		99.6		99.6
Digitel Information Technology Services, Inc.[l]	Philippines	Internet services		99.6		99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	98.0		98.0	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0		75.0	
Pacific Global One Aviation Co., Inc., or PG1[m]	Philippines	Air transportation business	65.0		50.0	
Pilipinas Global Network Limited, or PGNL, and Subsidiaries[n]	British Virgin Islands	Internal distributor of Filipino channels and content	64.6		60.0	
Others						
PLDT Global Investments Holdings, Inc., or PGIH, (formerly SPi Global Holdings, Inc.)[o]	Philippines	Investment company	100.0		100.0	
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiary[p]	Singapore	Investment company	100.0			
Mabuhay Investments Corporation, or MIC[f]	Philippines	Investment company	67.0		67.0	
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company		100.0		100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company		99.9		99.8

(a) *On July 12, 2013, the Philippine SEC approved the change in the business name of Smarthub, Inc. to Smart e-Money, Inc.*

(b) *On February 24, 2015, the Accounting and Corporate Regulatory Authority of Singapore approved the change in the business name of SHPL to eInnovations Holdings Pte. Ltd.*

(c) *On September 29, 2013, by a special resolution of the Board of Directors of SmartConnect Global Pte. Ltd., resolved to change its registered business name to Takatack Pte. Ltd.*

(d) *On January 7, 2013, Voyager was registered with the Philippine SEC to provide mobile applications development and services.*

(e) *On November 18, 2014, Smart acquired an 86.96% equity interest in Wifun. See Note 14 Business Combinations Smart s Acquisition of Wifun.*

(f) *Ceased commercial operations.*

(g) *On January 28, 2014, IPCDSI acquired a 100% equity interest in Rack I.T. Data Center, Inc., or Rack IT. See Note 14 Business Combinations IPCDSI s Acquisition of Rack IT.*

(h) *On April 8, 2014, ePLDT sold its 100% stake in iPlus through a management buyout for a consideration of Php42 million.*

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(i) *On October 30, 2013, Curo was incorporated to take-on the Outsourced IT Services as a result of the spin-off of iPlus.*

(j) *In 2014, ePLDT acquired an additional 0.6% equity interest in AGS from its minority shareholders thereby increasing ePLDT s ownership in AGS from 99.2% to 99.8%.*

(k) *Liquidated in January 2013.*

(l) *Corporate life shortened until June 2013.*

(m) *On March 10, 2014, PLDT acquired an additional 37.5 million shares of PG1, thereby increasing its ownership from 50% to 65%. See Note 10 Investments in Associates, Joint Ventures and Deposits Investment in PG1 and Note 14 Business Combinations PLDT s Additional Investment in PG1.*

(n) *In September 2014, PLDT converted a receivable from PGNL amounting to US$5.5 million as additional investment and infused additional cash into PGNL amounting to US$1.3 million thereby increasing its interest in PGNL from 60.0% to 64.6%.*

(o) *On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, which was wholly-owned by PGIH. The sale was completed in April 2013. Consequently, as at December 31, 2013, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. On June 3, 2013, the Philippine SEC approved the change in the business name of SPi Global Holdings, Inc. to PLDT Global Investments Holdings, Inc. See Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Classified as Held-for-Sale and Discontinued Operations.*

(p) *On August 1, 2014, PLDT Digital was incorporated to be the holding company of PLDT Online Investments Pte. Ltd., or PLDT Online, an entity that holds investment in Rocket Internet AG, or Rocket. See Note 11 Available-for-Sale Financial Investments PLDT Online s Investment in Rocket.*

Development Activities (2012-2014)

Investment in PDRs of MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, for the issuance of PDRs by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name Cignal TV , which is the largest DTH Pay-TV operator in the Philippines with 844 thousand net subscribers as at December 31, 2014.

On March 5, 2013, PLDT s Board of Directors approved two further investments in additional PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and

- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in three leading newspapers: The Philippine Star, the Philippine Daily Inquirer, and Business World. See *Note 26 Employee Benefits Unlisted Equity Investments Investment in MediaQuest* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs provided ePLDT an aggregate of 64% economic interest in Cignal TV.

On March 4, 2014, PLDT s Board of Directors approved an additional investment of up to Php500 million in Hastings PDRs to be issued by MediaQuest, which will increase ePLDT s investment in Hastings PDRs from Php1.95 billion to Php2.45 billion representing a 60% economic interest in Hastings.

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On March 11, 2014, MediaQuest received from ePLDT an amount aggregrating to Php300 million representing deposits for future PDRs subscriptions.

ePLDT s deposit for future Hastings PDRs subscription amounted to Php2,250 million and Php1,950 million as at December 31, 2014 and 2013, respectively.

As at March 26, 2015, the Hastings PDRs have not yet been issued.

The PLDT Group s financial investment in PDRs of MediaQuest is part of the PLDT Group s overall strategy of broadening its distribution platforms and increasing the Group s ability to deliver multi-media content to its customers across the Group s broadband and mobile networks.

Sale of BPO Segment

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, PGIH to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US$40 million of the proceeds from the sale in our acquisition of shares of Beta, resulting in an approximately 18.24% economic interest, and will continue to participate in the growth of the business as a partner of CVC. Pursuant to the sale, PLDT is subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT s business); and (2) an obligation, for a period of five years, to provide certain transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided to AOGL and/or its designated companies). In addition, PLDT may be liable for certain damages actually suffered by AOGL until the time of sale arising out of, among others, breach of representation, tax matters and noncompliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a joint subsidiary of SPi and SPi India Holdings (Mauritius), Inc. for the transactions that transpired up to the time of sale. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations* and *Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Classified as Held-for-Sale and Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion of the classification of the BPO segment as an asset held-for-sale.

PCEV s Transfer of Meralco Shares to Beacon

On October 25, 2011, PCEV transferred to Beacon its remaining investment in 68.8 million of Meralco s common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares of the same value. The transfer of the Meralco shares was implemented by a cross sale through the PSE.

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Since the transactions involve entities with common shareholders, PCEV recognized a deferred gain on transfer of the Meralco shares amounting to Php8,145 million, equivalent to the difference between the Php15,136 million transfer price of the Meralco shares and the Php6,991 million carrying amount in PCEV s books of the Meralco shares transferred. The deferred gain was presented as an adjustment to the investment cost of the Beacon preferred shares in 2011. Similar to the deferred gain on the transfer of the 154.2 million Meralco shares, the deferred gain will only be realized upon the disposal of the Meralco shares to a third party.

PCEV s Additional Investment in Beacon

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

In November 2014, Beacon declared cash dividends on its common shareholders in the amount of Php6,000 million, in the aggregate, which was paid in February 2015. PCEV s share of the dividend was Php3,000 million, and was deducted from the carrying value of the investment in a joint venture as at December 31, 2014.

Sale of Beacon Preferred Shares to MPIC

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

Change in View and Purpose of Investment in Beacon Preferred Shares

On October 30, 2013, PCEV s Board of Directors approved the change in view and purpose of its investment in Beacon preferred shares, from an investment available-for-sale financial investments to a strategic investment which PCEV intends to hold on to for the long-term, similar to its investment in Beacon common shares. As a result, the investment in Beacon preferred shares was reclassified from available-for-sale financial investments to investment in a joint venture (both are noncurrent assets). The carrying value of PCEV s investment in Beacon preferred shares amounted to Php7,268 million and Php6,250 million as at December 31, 2014 and 2013, respectively (net of deferred gain of Php5,520 million and Php6,133 million as at December 31, 2014 and 2013, respectively).

In March 2014, Beacon declared a 7% cumulative preferred dividend to its preferred shareholders in an aggregate amount of Php810 million. PCEV s share in the dividend declared by Beacon in the amount of Php405 million was received in May 2014 and was deducted from the carrying value of the investment as at December 31, 2014.

The carrying value of PCEV s investment in Beacon, representing 50% of Beacon s common shares outstanding, was Php21,895 million and Php23,375 million as at December 31, 2014 and 2013, respectively.

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Automated Fare Collection System Project Awarded to AFCSI

In 2013, Smart, along with other conglomerates MPIC and Ayala, bid for the AFCS project of the DOTC and Light Rail Transit Authority. The project aims to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems by substantially speeding up payments, reducing queuing time and facilitating efficient passenger transfer to other rail lines. The AFCS Consortium led by MPIC and Ayala, composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, and Globe Telecom, Inc., for the Ayala Group, and MPIC, Meralco Financial Services Corporation, and Smart for the MPIC Group, bid for the AFCS Project and on January 30, 2014, received a Notice of Award from the DOTC declaring it as the winning bidder.

On February 10, 2014, the AFCSI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC. As part of the agreement, Smart subscribed for 503 million shares equivalent to a 20% equity interest in AFCSI at a subscription price of Php1.00 per share. Of the total subscription price, Php300 million was paid by Smart and the remaining balance of Php203 million was unpaid as at December 31, 2014.

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

On January 20, 2015, the Board of Directors of AFCSI approved an additional capital infusion of Php800 million to fund its expenditures to be paid on or before March 31, 2015 by the shareholders in proportion to their share subscriptions. Smart will contribute an additional Php160 million for its 20% share in AFCSI.

See *Note 10 Investments in Associates, Joint Ventures and Deposits* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

PCEV s Common Stock

On June 24, 2014, PCEV s Board of Directors approved a repurchase or buyback program of its common shares, which are owned by its remaining minority stockholders and offered for sale at a price of not more than Php100,000.00 per share. The buyback program was valid until December 31, 2014.

See *Note 2 Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion of PCEV s Common Stock.

PLDT s Acquisition of Subscription Assets of Digitel

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel s subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed.

ePLDT s Acquisition of Shares of AGS Minority Stockholders

In 2014, ePLDT acquired an additional 0.6% in AGS from its minority shareholders for a total consideration of Php0.6 million, thereby increasing ePLDT s ownership in AGS from 99.2% to 99.8% as at December 31, 2014.

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Smart s Acquisition of Wifun, Inc., or Wifun

On November 18, 2014, Smart acquired an 86.96% equity interest in Wifun for total cash consideration of Php70 million of which Php35 million was paid in December 2014, Php6 million is payable in April 2015 and Php29 million is payable upon capital call of Wifun. Wifun was incorporated in the Philippines in 2013 and is engaged in the business of selling software solutions, telecommunications equipment and gadgets, and providing *WiFi* access.

Investment in mePay Operations Philippines, Inc., or mePay Ops

mePay Ops was incorporated in the Philippines on February 10, 2015 to market, sell and distribute payment solutions and other related services. mePay Ops is 60% and 40% owned by SMI and Smart, respectively, with an initial capitalization of Php1 million.

Sale of Healthcare Business by Asia Outsourcing Gamma Limited, or AOGL

On October 1, 2014, AOGL s healthcare business, which provides revenue cycle management, health information management and software solutions for independent and provider-owned physician practices, was sold to Conifer Health Solutions, America s leading provider of technology-enabled healthcare performance improvement services, for a total of US$235 million. AOGL is a wholly-owned subsidiary of Beta, which is, in turn, owned 80% by CVC Capital Partners, one of the world s leading private equity and investment advisory firms, and 20% by PLDT through its indirect subsidiary, PLDT Global Investments Corporation, or PGIC. As a result of the sale, PGIC received a cash payment of US$42 million from Beta.

PLDT s Additional Investment in PGNL

In September 2014, PLDT converted a receivable from PGNL amounting to US$5.5 million as additional investment and infused additional cash amounting to US$1.3 million thereby increasing its interest in PGNL from 60.0% to 64.6%.

PLDT Online s Investment in Rocket

On August 7, 2014, PLDT and Rocket entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets. A copy of the investment agreement relating to PLDT s investment in Rocket is furnished under Item 19. Exhibits .

Pursuant to the terms of the investment agreement, PLDT invested 333 million, or Php19,577 million, in cash, for new shares equivalent to a 10% stake in Rocket as at August 2014. These new shares are of the same class and bear the same rights as the Rocket shares held by the current investors, as at the date of the agreement, namely: Investment AB Kinnevik and Access Industries, in addition to Global Founders GmbH (formerly: European Founders Fund GmbH). PLDT made the 333 million investment in two payments (one on September 8 and one on September 15, 2014), which it funded from available cash and new debt. In accordance with PLDT s right to appoint one member of Rocket s nine-person supervisory board, on August 22, 2014, PLDT s President and Chief Executive Officer, Napoleon L. Nazareno, was appointed to the supervisory board.

Concurrently with the investment, PLDT and Rocket agreed pursuant to a joint venture agreement to jointly develop mobile and online payments in emerging markets. The partnership will leverage PLDT s experience and intellectual property in mobile payments and remittance platforms, together with Rocket s global technology platform, to provide products and services for the unbanked, uncarded and unconnected population in emerging markets. A copy of the joint venture agreement between PLDT and Rocket is furnished under Item 19. Exhibits .

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PLDT s investment terms reflect its long-term commitment to Rocket and its unique ability to combine PLDT s world-class mobile money expertise and resources with Rocket s global platform to develop future value-enhancing growth opportunities.

On August 21, 2014, PLDT assigned all its rights, titles and interests, as well as all of its obligations related to its investment in Rocket, to PLDT Online, an indirectly wholly-owned subsidiary of PLDT.

On October 1, 2014, Rocket announced the pricing of its initial public offering, or IPO, at 42.50 per share. On October 2, 2014, Rocket listed its shares on the Entry Standard of the Frankfurt Stock Exchange under the ticker symbol RKET. PLDT s ownership stake in Rocket after the IPO was reduced to 6.6%. At the closing price of Rocket as at December 31, 2014 of 51.39 per share, the total market value of PLDT s stake in Rocket was 519 million or Php27,855 million. The unrealized gains of Php8,144 million as a result of the change in the fair value of Rocket shares as at December 31, 2014 was recognized in other comprehensive income in the Net gains available-for-sale financial investments net of tax account in the accompanying audited consolidated financial statements. Total costs directly attributable to the acquisition of Rocket shares and recognized as part of investment cost amounted to Php134 million.

As at March 26, 2015, due to additional issuances of shares by Rocket, PLDT s ownership percentage in Rocket was reduced to 6.1%.

Rocket provides a platform for the rapid creation and scaling of consumer internet businesses outside the U.S. and China. Rocket has more than 20,000 employees in its network of companies across over 100 countries, with aggregated revenues in excess of 700 million in 2013. Its most prominent brands include leading Southeast Asian e-Commerce businesses, Zalora and Lazada, as well as fast growing brands with strong positions in their markets, such as Dafiti, Linio, Jumia, Namshi, Lamoda, Jabong, Westwing, Home24 and HelloFresh, in Latin America, Africa, Middle East, Russia, India and Europe. Financial technology and payments comprise Rocket s third sector where it anticipates numerous and significant growth opportunities.

Sale of Beacon s Meralco Shares to MPIC

On June 24, 2014, Beacon and MPIC entered into a Share Purchase Agreement to sell 56 million common shares, comprising an approximately 5% interest in Meralco to MPIC at a price of Php235.00 per share for an aggregate consideration of Php13,243 million. Based on the agreement, MPIC settled a portion of the consideration amounting to Php3,000 million immediately upon signing of the agreement and the balance was paid on February 27, 2015.

Upon completion of the sale, PCEV s effective interest in Meralco, through Beacon, was reduced to 22.48%, while MPIC s effective interest in Meralco, through its direct ownership of Meralco shares and through Beacon, increased to 27.48%. There is no change in the aggregate joint interest of MPIC and Beacon in Meralco which remains at 49.96%.

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PLDT s Acquisition of Additional Shares of PG1

On January 28, 2014, PLDT s Board of Directors approved the purchase of 37.5 million shares of PG1 owned by Jubilee Sky Limited, or JSL, which effectively increases PLDT s ownership in PG1 from 50% to 65%. The cash consideration for the shares purchased, which was completed on March 10, 2014, was Php23 million. Thus, PLDT gained control of PG1 and, therefore, PG1 s financial statements were included in our consolidated financial statements effective March 10, 2014. See *Note 10 Investments in Associates, Joint Ventures and Deposits Investment in PG1* and *Note 14 Business Combinations PLDT s Additional Investment in PG1* to the accompanying audited consolidated financial statements in Item 7. Financial Statements .

IPCDSI s Acquisition of Rack I.T. Data Center, Inc., or Rack IT

On January 28, 2014, IPCDSI and a third party entered into a sale and purchase agreement whereby the third party sold its 100% ownership in Rack IT to IPCDSI for a total purchase price of Php164 million, of which Php25 million was originally to be paid upon completion of certain closing conditions in May 2014. On May 28, 2014, ePLDT granted the request of the third party to extend the deadline of the completion of certain closing conditions to on or before December 31, 2014. On November 26, 2014, ePLDT granted an additional request of the third party to further extend the deadline for completion of the closing conditions to on or before March 31, 2015.

Rack IT was incorporated to engage in the business of providing data center services, encompassing all the information technology and facility-related components or activities that support the projects and operations of a data center. The Sucat Data Center, with rack capacity of 800, held its inauguration on December 3, 2014. Rack IT started commercial operations on February 20, 2015.

See *Note 2 Summary of Significant Accounting Policies, Note 10 Investments in Associates, Joint Ventures and Deposits,* and *Note 14 Business Combinations* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion regarding these and other acquisitions.

Strengths

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

Recognized Brands. PLDT, Smart, *Talk N Text* and *Sun Cellular* are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for over 85 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. The *Talk N Text* brand, which is provided using Smart s network, has also gained significant recognition as a price-competitive brand. Our brand range was further strengthened with the acquisition of DMPI and its cellular brand, *Sun Cellular*. Since its launch in 2003, *Sun Cellular* has built considerable brand equity as a provider of unlimited services. Having a range of strong and recognizable brands allows us to offer to various market segments differentiated products and services that suit customers budgets and usage preferences.

Leading Market Shares. With over 76 million fixed lines, cellular and broadband subscribers as at December 31, 2014, we have leading market positions in each of the fixed line, cellular and broadband markets in the Philippines in terms of both subscribers and revenues.

Diversified Revenue Sources. We derive our revenues from two of our business segments, namely, Wireless and Fixed Line, with each contributing 64% and 36%, respectively, to our total revenues in 2014, and 65% and 35%, respectively, in 2013. Revenue sources of our wireless business include cellular services, which include voice services and text message-related, mobile internet and VAS, and wireless broadband services. Revenues from cellular voice and text services have been declining but this decline is somewhat mitigated by the increase in revenues from wireless broadband and mobile internet browsing. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. Revenues from local exchange, national and international long distance, have been declining over the past years due to pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution from corporate, SME and consumer data.

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

Innovative Products and Services. We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Money, Smart Load* and *Pasa Load. Smart Load* is an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term pasa means transfer) is a derivative service of *Smart Load* that allows load transfers to other *Smart Prepaid* and *Talk N Text* subscribers.

Strong Strategic Relationships. We have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Strategy

The key elements of our business strategy are:

Build on our leading positions in the fixed line and wireless businesses. We plan to continue building on our position as the leading fixed line and wireless service provider in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost, and to increase our subscribers use of our network for both voice and data, as well as their reliance on our services.

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Capitalize on our strength as an integrated provider of telecommunications services. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless, and other products and services, including media content, utilizing our network and business platforms.

Strengthen our leading position in the data and broadband market. Leveraging on the inherent strengths of our fixed line and wireless businesses, we are committed to further develop our fastest growing business broadband, data and other network services, including mobile internet. Consistent with our strategy of introducing innovative products and services using advanced technology, we continue to launch various products and services in the data and broadband market that deliver quality of experience according to different market needs, including data centers and cloud-related services.

Maintain a strong financial position and improve shareholder returns. Following significant improvements in our financial position, we restored the payment of cash dividends to our common shareholders beginning in 2005 and were able to declare dividend payouts of approximately 100% of our core earnings for the seven consecutive years from 2007 to 2013 and approximately 90% of our core earnings for 2014. We plan to continue utilizing our free cash flows for the payment of cash dividends to common shareholders and investments in new growth areas. As part of our growth strategy, we have made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in telecommunications as well as telco-related businesses such as those in media and content.

Business

Wireless

We provide cellular, wireless broadband, satellite and other services through our wireless business.

Cellular Service

Overview

Our cellular business, which we provide through Smart and DMPI to almost 70 million subscribers as at December 31, 2014, approximately 96% of whom are prepaid subscribers, focuses on providing wireless voice communications and wireless data communications (primarily through text messaging, but also through a variety of VAS and mobile broadband). As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE s *Red Mobile* subscriber base to Smart. See *Note 2 Summary of Significant Accounting Policies Divestment of CURE* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

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The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014	2013	2012
Systemwide cellular subscriber base	69,857,060	70,045,627	69,866,458
Prepaid	67,091,612	67,667,750	67,611,537
Smart Prepaid	24,877,144	24,608,687	25,061,453
Talk N Text	28,149,360	29,485,017	28,445,053
Sun Cellular	14,065,108	13,574,046	14,105,031
Postpaid	2,765,448	2,377,877	2,254,921
Smart	1,040,221	889,696	683,480
Sun Cellular	1,725,227	1,488,181	1,571,441
Growth rate of cellular subscribers			
Prepaid			
Smart Prepaid	1%	(2%)	(11%)
Talk N Text	(5%)	4%	39%
Sun Cellular	4%	(4%)	6%
Postpaid			
Smart	17%	30%	18%
Sun Cellular	16%	(5%)	16%
Cellular revenues (in millions)	Php 103,836	Php 105,875	Php 103,604
Voice	50,640	51,384	49,627
Data	50,137	52,258	51,415
Others	3,059	2,233	2,562
Percentage of cellular revenues to total wireless service revenues	90%	91%	91%
Percentage of cellular revenues to total service revenues	58%	59%	60%

Smart markets nationwide cellular communications services under the brand names *Smart Prepaid, Talk N Text, Smart Postpaid* and *Smart Infinity*. *Smart Prepaid* and *Talk N Text* are prepaid services while *Smart Postpaid* and *Smart Infinity* are postpaid services, which are all provided through Smart s digital network. With the acquisition of a majority interest in the Digitel Group on October 26, 2011, we offer prepaid and postpaid services under the brand name *Sun Cellular*.

Smart, together with *Talk N Text* and *Sun Cellular*, has focused on segmenting the market by offering sector-specific, value-driven packages for its subscribers. These include load buckets which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls of preset duration. Starting out as within network packages, Smart s buckets now also offer voice, text and hybrid bundles available to all networks. Smart also provides packages with unlimited voice, text, data, and combinations thereof, denominations of which depend on the duration and nature of the unlimited packages.

Among the many popular bucket variants of Smart prepaid is the *Unli Call and Text 25* where subscribers can enjoy unlimited calls to Smart and *Talk N Text,* unlimited texts to Smart, *Talk N Text* and Sun Cellular, plus free 50 all network texts with 15MB of mobile internet data and additionally, unlimited Facebook access valid for one day. In addition, for as low as Php10, Smart Prepaid subscribers can get 75 all network texts, and 5MB of mobile internet data which is valid for one day.

Sun Cellular offers its *Call and Text Unlimited* products, which allow Sun Prepaid subscribers to enjoy 24 hours of *Sun-to-Sun* voice calls and all network texts and unlimited Facebook access for as low as Php25 per day. *Sun Cellular s Text Unlimited* products offer unlimited *Sun-to-Sun* SMS with free ten minutes of voice calls to Sun, Smart and *Talk N Text* plus ten minutes of mobile internet for as low as Php10 per day. *Sun Cellular* also offers *Call and Text* combo which allows subscribers to send 50 *Sun-to-Sun* SMS and 50 SMS to other networks along with ten minutes of calls to Sun, Smart and *Talk N Text* voice calls and ten minutes of mobile internet for only Php10, valid for one day.

Sun Cellular also offers *Sun Trio Loads*, which comes with unlimited texts to Sun, Smart and *Talk N Text* bundled with unlimited Facebook access for only Php20, valid for two days.

Postpaid subscribers have similar options depending on their monthly subscription plans. Smart offers *Smart All-in Plans*, which enable subscribers to choose from Smart s different services, such as unlimited call, text, or mobile browsing, all charged within the subscriber s monthly service fee.

Smart also offers the *Smart Unli Postpaid Plan 599* which offers unlimited calls to Smart subscribers and unlimited texts to Smart, *Talk N Text* and *Sun Cellular* subscribers plus 200MB of data and a *Spinnr* VIP subscription valid for 30 days.

Sun Cellular postpaid plans offer a variety of services to cater to the emerging needs of the subscribers at affordable prices. *Sundroid Rush Plans* starting from Php450 per month come with a free Android handset and tablet that allows subscribers to enjoy unlimited *Sun Calls and Texts,* 250 free texts to other networks and 20 hours of mobile internet. *Sun Cellular* also offers international direct dialing, or IDD, plans which allows subscribers to make international calls and send SMS to selected countries for as low as Php1.50 per minute of voice call or per SMS. The IDD plans also come with a free Android handset along with free calls and SMS, depending on the plan.

Voice Services

Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remain a significant contributor to wireless revenues, generating a total of Php50,640 million, Php51,384 million and Php49,627 million, or 49%, 49% and 48% of cellular service revenues in 2014, 2013 and 2012, respectively. Local calls continue to dominate outbound traffic constituting 92% of all our cellular minutes. Domestic inbound and outbound calls totaled 49,525 million minutes in 2014, a decrease of 1,979 million minutes, or 4%, as compared with 51,504 million minutes in 2013 primarily due to lower unlimited and standard voice traffic, partially offset by higher domestic voice revenues. International inbound and outbound calls totaled 3,241 million minutes in 2014, a decrease of 599 million minutes, or 16%, as compared with 3,840 million minutes in 2013. The ratio of inbound-to-outbound international long distance minutes was 5.9:1 for 2014.

Data Services

Cellular revenues from data services include all text messaging-related services and mobile internet, as well as VAS.

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

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Cellular revenues from data services decreased by Php2,121 million, or 4%, to Php50,137 million in 2014 from Php52,258 million in 2013 primarily due to lower text messaging and VAS revenues, partially offset by higher mobile internet revenues. In 2014, Smart s and DMPI s text messaging system handled 32,155 million outbound messages on standard SMS services and 389,321 million messages generated by bucket-priced text services.

Revenues from mobile internet includes web-based services such as mobile internet browsing and video streaming, net of allocated discounts and content provider costs. Mobile internet revenues increased by Php3,111 million, or 63%, to Php8,079 million in 2014 from Php4,968 million in 2013.

Smart and DMPI offer the following VAS:

- *Pasa Load/Give-a-load,* which includes revenues from *Pasa Load* and *Dial*SOS*, net of allocated discounts. *Pasa Load/Give-a-load* is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial*SOS allows Smart prepaid subscribers to borrow Php4 of load (three Smart-to-Smart texts plus Php1 air time) from Smart which will be deducted upon their next top-up;

- *SMS-based,* which includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs;

- *MMS-based,* which includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs; and

- Financial services*,* which include revenues from Smart Money Clicks via Smart Menu and mobile banking. Smart Money Clicks includes the following services: balance inquiry, re-load prepaid accounts, bills payment, card management and internet purchases.

Mobile internet browsing has shown significant growth as a result of the popularity of social networking and the affordability of smartphones. Our current approach is to continue maximizing our 3G network services while upgrading our network to LTE 4G. We aim to encourage sustained growth in mobile internet browsing by offering free internet access to mobile subscribers. Our Free Internet promo was launched in September 2014 and was offered until the end of February 2015.

Rates

Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and has outbound call, text or data activity. A prepaid cellular subscriber is considered inactive if the subscriber does not reload within 120 days after the full usage or expiry of the last reload.

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Smart Prepaid and *Talk N Text* call and text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of electronic loading facility, *Smart Load,* made reloading of air time credits more convenient and accessible to consumers. *Smart Load s* over-the-air reloads have evolved to respond to market needs and now come in various denominations ranging from Php10 to Php1,000 with corresponding expiration periods. The introduction of *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or bucket packages as a means of driving subscriber activations and stimulating usage. These bucket packages, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be popular with subscribers. Smart also offers unlimited voice and text packages under its various brands in order to be competitive and maintain industry leadership. Both bucket packages, and unlimited voice and text packages accounted for 45% of our cellular service revenues in 2014.

Smart Prepaid subscribers are charged Php6.50 per minute for calls to *Smart Prepaid* and *Talk N Text* subscribers and Php7.50 per minute terminating to other cellular or fixed line networks. *Talk N Text* calls to *Talk N Text* subscribers are charged Php5.50 per minute while calls to *Smart Prepaid* and other cellular fixed line subscribers are charged Php6.50 per minute.

Sun Cellular has continued to offer its range of unlimited products and further introduced special product promotions. *Sun Cellular* introduced an enhanced version of its flagship *Call and Text Unlimited* services, which now includes unlimited tri-net calls and texts to all networks. For example, the Php100 denomination is valid for five days with unlimited tri-net calls and all-network texts plus unlimited Facebook access. There are also the following variants with longer validity periods and more free inclusions: Php150 provides *Sun Call & Text Unlimited* for 7 days with Php25 regular load and unlimited Facebook access, while Php450 is valid for 30 days and includes Php50 regular load and unlimited Facebook access. Recently, *Sun Cellular* launched *Sun Power Text Unlimited 200* which gives subscribers 30 days of unlimited *Sun* texts, four hours of *Sun-to-Sun* calls and 1,000 texts to other networks.

Smart offers *All In*, *Unli Voice and Text*, and *Unli Data* postpaid plans with monthly service fees ranging from Php349 to Php3,000 for *Smart Postpaid* and from Php3,500 to Php8,000 for *Smart Infinity* plans. These plans are allocated with free calls, texts and data, and different rates in excess of allocation, depending on the monthly plan.

Sun Cellular offers postpaid services that enable subscribers to call, text and browse the internet wirelessly through postpaid plans with varying monthly service fees ranging from Php199 to Php3,500. *Sun Cellular* subscribers not availing of any *Call and Text Unlimited* service are charged Php5.50 per minute for calls to other *Sun Cellular* subscribers and Php6.50 to other networks. Local national direct dialing, or NDD, calls are likewise charged at Php10.00 per minute.

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

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Sun Cellular offers an IDD rate of US$0.30 per minute to Japan, Saudi Arabia, United Arab Emirates, Australia, United Kingdom, Italy, Germany, Spain and over 100 other countries. Subscribers can also opt to avail themselves of any of *Sun Cellular s* various promos, where the international calling rate is as low as Php1.50 per minute.

Distribution and Discounts

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have 30 exclusive regional and 151 exclusive provincial distributors, and 118 key account dealers, 14 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products. With the introduction of *Smart Load*, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the sachet marketing concept of consumer goods, such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. *Sun Cellular* also offers over-the-air reloads through Sun s *Xpress Load*. Starting with just 50,000 outlets when it was launched, our distribution network now encompasses approximately 1.55 million retailers with Smart and *Sun Cellular* combined. These retailers must be affiliated with one of Smart s and *Sun Cellular s* authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart s prepaid service became more affordable and accessible to subscribers.

For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, call and text cards and over-the-air reloads sold. Smart compensates dealers with Php45 to Php1,000 in cash discounts per unit depending on the price of the prepaid phone kit sold, whereas *Sun Cellular s* cash discount of Php40 to Php220 varies based on the prepaid phone kit sold. Call and text cards and over-the-air reloads are sold at an average discount of approximately 8% and 9%, respectively for both Smart and *Sun Cellular*. Call and text cards cannot be returned or refunded and normally expire within 12 months after release from the Smart warehouse. The same policy is being applied by *Sun Cellular.*

Wireless Broadband, Satellite and Other Services

Overview

We currently provide wireless broadband, satellite and other services through SBI, DMPI and PDSI, our wireless broadband service providers; Chikka Group, our wireless content operator; ACeS Philippines, our satellite operator; and MVNO services from PLDT Global.

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The following table shows information of our wireless broadband revenues and subscriber base as at and for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014	2013	2012
Wireless Broadband Revenues	Php 10,019	Php 9,432	Php 8,606
Prepaid	3,173	2,823	2,467
Postpaid	6,846	6,609	6,139
Wireless Broadband Subscribers	2,986,146	2,453,826	2,359,024
Prepaid	2,142,566	*1,669,618*	*1,587,160*
Smart	1,795,039	1,359,862	1,231,092
Sun	347,527	309,756	356,068
Postpaid	843,580	*784,208*	*771,864*
Smart	514,327	549,347	495,802
Sun	329,253	234,861	276,062
Percentage of wireless broadband revenues to total wireless service revenues	9%	8%	8%
Percentage of wireless broadband revenues to total service revenues	6%	5%	5%

SBI

SBI offers *SmartBro*, a wireless broadband and data service being offered to residential consumers as well as small and medium-scale enterprises in the Philippines through the following technologies: 3G HSPA, 4G HSPA+, LTE, broadband-enabled base stations and *WiMAX*. SBI also offers *HOMEBro,* a fixed wireless broadband service being offered under PLDT s *Home* megabrand. *HOMEBro* fixed wireless broadband service is powered either via a link to Smart s wireless broadband-enabled base stations which allows subscribers to connect to the internet using an outdoor antenna installed in the subscriber s home or via Smart s *WiMAX* network. SBI s wireless broadband revenue contribution increased by Php533 million, or 7%, to Php8,091 million in 2014 from Php7,558 million in 2013. As at December 31, 2014, we had 2,309,366 subscribers, an increase of 400,157 subscribers, or 21%, as compared with 1,909,209 subscribers as at December 31, 2013. *SmartBro* aims to strengthen our position in the wireless data service and complements PLDT s *myDSL* service in areas where the latter is not available.

DMPI

Through DMPI, with its *Sun Broadband Wireless* service, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. DMPI s *Sun Broadband Wireless* service offers internet users broadband wireless service with 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* aims to strengthen our position in the wireless data service and complements PLDT s *myDSL* service in areas where the latter is not available. *Sun Broadband Wireless* has plans and offerings ranging from Php250 to Php1,399 with speeds of up to 3.6 Megabits per second, or Mbps, except for *Plan 1399* which has a speed of up to 7.2 Mbps. *Sun Cellular* also offers the *SBW Gadget Bundle* available under *Plans 600* and *999*, which comes with a free tablet and pocket *WiFi*. DMPI s wireless broadband revenue contribution increased by Php54 million, or 3%, to Php1,928 million in 2014 from Php1,874 million in 2013. As at December 31, 2014, DMPI had 347,527 and 329,253 prepaid and postpaid broadband subscribers, respectively, as compared with 309,756 and 234,861 prepaid and postpaid broadband subscribers, respectively, in 2013.

PDSI

PDSI provides a suite of high-value IP-based products servicing corporate clients, such as wired and wireless leased line access with security and high availability option, managed services, VoIP and other value-added services such as server colocation and data center services.

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ACeS Philippines

ACeS Philippines currently owns approximately 36.99% of ACeS International Limited, or AIL, provides satellite-based communications to users in the Asia-Pacific region through the ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended ATPA with National Service Providers in Asia, including PLDT. See *Note 10 Investments in Associates, Joint Ventures and Deposits*, *Note 25 Related Party Transactions* and *Note 28 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion regarding the ATPA.

As part of the integration process of the PLDT Group s wireless business, ACeS Philippines operations have been integrated into Smart. This operational integration effectively gives Smart the widest service coverage in the Philippines through the combination of the coverage of ACeS Philippines with Smart s cellular service.

Revenues

Our revenues from wireless broadband, satellite and other services consist of wireless broadband service revenues of SBI, DMPI and PDSI, revenues from ACeS Philippines satellite information and messaging services, revenues from content and mobile applications services from Chikka Group; and service revenues generated from MVNO services of PLDT Global s subsidiaries.

Rates

HOMEBro, SBI s fixed wireless broadband service linked to Smart s wireless broadband-enabled base stations, allows subscribers to connect to the internet using an outdoor aerial antenna installed in a subscriber s home.

SBI offers mobile internet access through *SmartBro Plug-It,* a wireless modem, and *SmartBro Pocket WiFi*, a portable wireless router which can be shared by up to ten users at a time. Both provide instant connectivity in places where there is Smart network coverage. *SmartBro Plug-It* and *SmartBro Pocket WiFi* are available in both postpaid and prepaid variants. Standard browsing charge is Php5 for Bro prepaid and Php2.50 for Bro postpaid for a 15-minute internet access. We also have an additional array of load packages that offer per minute-based and volume-based charging and longer validity periods.

ACeS Philippines fixed/mobile service subscribers are charged Php15.00 per minute for local and mobile calls for on-net transactions, while off-net transactions are charged Php18.00 per minute. Rates for international long distance calls depend on the country of termination and range from US$0.35 per minute for frequently called countries to US$0.85 per minute for less frequently called countries.

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Fixed Line

We provide local exchange, international long distance, national long distance, data and other network and miscellaneous services under our fixed line business.

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

Local Exchange Service

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries Philcom Group, BCC, PLDT Global and its subsidiaries, ClarkTel, SubicTel, SBI, PDSI, Maratel and Digitel. Together, these subsidiaries account for approximately 6% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange services as at and for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Number of local exchange line subscribers	2,207,889	2,069,419	2,063,794
Number of fixed line employees	7,466	7,415	7,546
Number of local exchange line subscribers per employee	296	279	273
Total local exchange service revenues (in millions)	Php 16,587	Php 16,274	Php 16,470
Local exchange service revenues as a percentage of total fixed line service revenues	25%	26%	28%
Local exchange service revenues as a percentage of total service revenues	9%	9%	9%

Revenues from our local exchange service amounted to Php16,587 million in 2014, Php16,274 million in 2013 and Php16,470 million in 2012. The increase in revenues in 2014 from 2013 was primarily due to higher weighted average postpaid billed lines, an increase in ARPU and higher installation and activation charges, partially offset by lower other local services. The decrease in revenues in 2013 from 2012 was primarily due to lower weighted average billed lines, and a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services, partially offset by higher installation and activation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 25% in 2014, and 26% and 28% in 2013 and 2012, respectively.

Rates

Basic monthly charges for our local exchange service vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,100 for residential customers and Php1,500 for business customers. New products launched on a promotional basis or products bundled with existing services usually are combined with a waiver of the installation fee or allow for a minimal installation fee of Php500. Aside from basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Generally, calls between PLDT and other landlines within a local area code are free. Our prepaid fixed line customers do not pay a basic monthly charge but they can load a minimum amount of Php200, which will expire in a month, to have unlimited incoming calls. To make outbound calls, customers must top-up, as local calls are charged Php2.00 per call and tolls are charged separately depending on the type of call. Recently, the Php300 load plan was introduced to the market with 600 free local outgoing minutes and unlimited incoming calls for one month. To make outbound calls in excess of the free minutes, prepaid fixed line customers must top-up their load, with all local calls charged at Php2.00 per call while tolls are charged separately depending on the type of call.

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

Currently, the *PLP* postpaid regular service offers the following two plans: (i) *Plan 600* and (ii) *Plan 1,000*, both of which include unlimited local outgoing calls. Another postpaid service currently offered is the *Call All* plan wherein *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers wireless broadband services bundled with voice, namely, *Home Bundle 1299* and *Internet@Home* plans are offered in two plans with monthly service fees of Php990 and Php1,299.

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

Pursuant to a currency exchange rate adjustment, or CERA, a mechanism authorized by the NTC, we are allowed to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the Philippine peso-to-U.S. dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In a letter dated July 11, 2008, the NTC approved our request to implement a rate rationalization program for our local service rates. In 2014, we did not make any adjustment in our monthly local service rates. For a detailed description of these rates, see International Long Distance Service Rates and National Long Distance Service Rates.

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

International Long Distance Service

Our international long distance service consists of switched voice and packet-based voice services and data services that go through our IGFs. We also generate international long distance revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate on our local exchange network. Our voice services are transmitted over the traditional TDM and IP networks. Revenues from our international long distance service amounted to Php11,404 million in 2014, Php11,422 million in 2013 and Php10,789 million in 2012.

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The following table shows certain information about our international long distance services for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Total call volumes (in million minutes)	2,028	2,185	2,150
Inbound call volumes (in million minutes)	1,739	1,806	1,691
Outbound call volumes (in million minutes)	289	379	459
Inbound-outbound call ratio (in minutes)	6.0:1	4.8:1	3.7:1
Total international long distance service revenues (in millions)	Php 11,404	Php 11,422	Php 10,789
International long distance service revenues as a percentage of total fixed line service revenues	18%	18%	18%
International long distance service revenues as a percentage of total service revenues	6%	6%	6%

In spite of the popularity of OTT services that offer free on-net calling services (e.g. *Skype, Viber, Line, WhatsApp*, etc.), international long distance service revenues were flat in 2014 due to sustained traffic volume from the Middle East and the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (i) adjusting our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) interconnecting popular communication service providers (like *Skype* and *Viber*); and (iv) introducing a number of marketing initiatives, including cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for customers. In addition, PLDT Global is also enhancing the presence of PLDT in other international markets by offering products and services such as international prepaid calling cards, virtual mobile services, SMS transit and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2014, 2013 and 2012:

		Net Settlement	
	2014	2013 (in millions)	2012
Saudi Arabia	US$ 93	US$ 71	US$ 49
United Arab Emirates	19	31	27
United States	17	22	19
Malaysia	10	9	7
Canada	9	11	7
Hong Kong	7	7	8
Japan	4	5	11
Taiwan	4	7	10
UK	3	5	4
Others	13	14	19
Total	US$ 179	US$ 182	US$ 161

Rates

The average termination rate for PLDT was approximately US$0.09 per minute in 2014, 2013 and 2012.

Rates for outbound international long distance calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in Philippine pesos. The Philippine peso amounts are determined at the time of billing. We charge a flat rate of

US$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

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We also offer international long distance service through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling services to 101 calling destinations/countries (including 12 Middle East destinations) with rates ranging from Php1.50 per minute to Php15.00 per minute. PLDT *Budget Card* comes in two denominations: Php100, which can be consumed within 30 days from first use, and Php200, which can be consumed within 60 days from first use.

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

National Long Distance Service

Our national long distance services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers. Revenues from our national long distance service amounted to Php4,365 million in 2014, Php4,583 million in 2013 and Php5,046 million in 2012.

The following table shows certain information about our national long distance services for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Total call volumes (in million minutes)	819	852	971
Total national long distance service revenues (in millions)	Php 4,365	Php 4,583	Php 5,046
National long distance service revenue as a percentage of total fixed line service revenues	7%	7%	9%
National long distance service revenue as a percentage of total service revenues	2%	3%	3%

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing, cellular text messaging and social networking sites, have negatively affected our national long distance call volumes and higher ARPU. Furthermore, certain promotions on our national long distance calling rates ended in 2014. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, as well as the interconnection among local telcos, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

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Rates

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

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

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

PLDT currently has interconnection arrangements with the majority of other LECs, pursuant to which the originating carrier pays: (1) a hauling charge of Php0.50 per minute for short-haul traffic or Php1.25 per minute for long-haul traffic to the carrier owning the backbone network, and (2) an access charge ranging from Php1.00 per minute to Php3.00 per minute to the terminating carrier. PLDT still maintains revenue-sharing arrangements with a few other LECs, whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and the remaining 30% for the terminating entity.

Data and Other Network Services

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

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Subscriber base:			
Broadband	*1,089,004*	*961,967*	*887,399*
SWUP	*35,869*	*30,302*	*22,720*
Total data and other network service revenues (in millions)	Php 30,334	Php 27,472	Php 25,059
Domestic	21,848	19,917	18,436
Broadband	13,876	12,268	*11,246*
Leased Lines and Others	7,972	7,649	*7,190*
International			
Leased Lines and Others	6,412	5,787	*5,524*
Data Center	2,074		