SEC Number PW-55
File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2014

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

March 3, 2015

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

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

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-C with Management's Discussion and Analysis and accompanying audited consolidated financial statements as at and for the year ended December 31, 2014.

Very truly yours,

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

SEC Registration Number

P W - 5 5

Company Name

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

Principal Office (No./Street/Barangay/City/Town/Province)

RAMON COJUANGCO BUILDING MAKATI AVENUE MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-C	MSRD	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
jacabal@pldt.com.ph	(02) 816-8534	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
11,875 as at January 31, 2015	Every 2nd Tuesday in June	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
June Cheryl A. Cabal-Revilla	jacabal@pldt.com.ph	(02) 816-8534	

Contact Person's Address

11/F Ramon Cojuangco Bldg. Makati Ave., Makati City

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION
CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.1

1. March 3, 2015
Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

3. BIR Tax Identification No. 000-488-793

4. PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Exact name of issuer as specified in its charter

5. PHILIPPINES
Province, country or other jurisdiction of Incorporation

6.____________ (SEC Use Only)
Industry Classification Code

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 1200
Address of principal office — Postal Code

8. (632) 816-8553
Issuer's telephone number, including area code

9. Not Applicable
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code and Sections 4 and 8 of the Revised Securities Act

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	216,055,775 [(1)]
Amount of Debt Outstanding	Php130,123 million as at December 31, 2014

(1) Represents the total outstanding common shares (net of 2,724,111 Treasury shares).

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at December 31, 2014 and 2013 and for the years ended December 31, 2014 and 2013 and related notes (pages F-1 to F-177) are filed as part of this report on Form 17-C.

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

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

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

The financial information appearing in this report and in the accompanying audited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying audited consolidated financial statements were made based on the exchange rate of Php44.74 to US$1.00, the volume weighted average exchange rate as at December 31, 2014 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and 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 forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, actual results may differ materially from any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

	Years ended December 31,		Increase (Decrease)	
	2014	2013	Amount	%
(in millions, except for EBITDA margin, earnings per common share, net debt to equity ratio and operational data)				
Revenues	Php170,962	Php168,331	Php2,631	2
Expenses	130,457	125,515	4,942	4
Other income (expenses)	3,643	(1,184)	4,827	(408)
Income before income tax	44,148	41,632	2,516	6
Net income for the period	34,090	35,453	(1,363)	(4)
Continuing operations	*34,090*	*33,384*	*706*	*2*
Discontinued operations	–	*2,069*	*(2,069)*	*(100)*
Core income	37,410	38,717	(1,307)	(3)
Continuing operations	*37,410*	*38,816*	*(1,406)*	*(4)*
Discontinued operations	–	*(99)*	*99*	*(100)*
EBITDA	76,877	77,552	(675)	(1)
EBITDA margin(1)	47%	47%	–	–
Reported earnings per common share:				
Basic	157.51	163.67	(6.16)	(4)
Diluted	157.51	163.67	(6.16)	(4)
Core earnings per common share(2):				
Basic	172.88	178.93	(6.05)	(3)
Diluted	172.88	178.93	(6.05)	(3)

	December 31,		Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php436,295	Php399,638	Php36,657	9
Property, plant and equipment – net	191,984	192,665	(681)	–
Cash and cash equivalents and short-term investments	27,302	32,623	(5,321)	(16)
Total equity attributable to equity holders of PLDT	134,364	137,147	(2,783)	(2)
Long-term debt, including current portion	130,123	104,090	26,033	25
Net debt(3) to equity ratio	0.77x	0.52x	–	–

	Years ended December 31,		Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php66,015	Php73,763	(Php7,748)	(11)
Net cash used in investing activities	(51,686)	(21,045)	(30,641)	146
Capital expenditures	*34,759*	*28,838*	*5,921*	*21*
Net cash used in financing activities	(19,897)	(59,813)	39,916	(67)
Operational Data				
Number of cellular subscribers	69,857,060	70,045,627	(188,567)	–
Number of fixed line subscribers	2,207,889	2,069,419	138,470	7
Number of broadband subscribers:	4,075,150	3,415,793	659,357	19
Fixed Line	*1,089,004*	*961,967*	*127,037*	*13*
Wireless	*2,986,146*	*2,453,826*	*532,320*	*22*
Number of employees:	17,496	17,899	(403)	(2)
Fixed Line	*9,771*	*10,219*	(448)	*(4)*
LEC	*7,466*	*7,415*	51	*1*
Others	*2,305*	*2,804*	(499)	*(18)*
Wireless	*7,725*	*7,680*	45	*1*

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

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

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

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
December 31, 2014	Php44.74	Php44.40
December 31, 2013	44.40	42.44
December 31, 2012	41.08	42.24

Performance Indicators

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

EBITDA

EBITDA for the year 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. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization 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 EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Core Income

Core income for the year is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. The 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 of determining the level of dividend payouts to shareholders and basis of granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Digital Mobile Philippines, Inc., or DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digital Telecommunications Philippines, Inc., or Digitel, our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Chikka Holdings Limited, or Chikka, and its subsidiaries, or Chikka Group, our wireless content operators; ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, provider;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global Corporation, or PLDT Global, and certain subsidiaries and Digitel, all of which together account for approximately 6% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, and Curo Teknika, Inc.; distribution of Filipino channels and content provided by Pilipinas Global Network Limited and its subsidiaries; air transportation services provided by Pacific Global One Aviation Co., Inc.; and bills printing and other value-added services, or VAS, related services provided by ePDS, Inc., or ePDS; and

- *Others* — PLDT Global Investment Holdings, Inc., Mabuhay Investments Corporation, PLDT Global Investments Corporation, PLDT Communications and Energy Ventures, Inc., or PCEV, PLDT Digital Pte. Ltd., or PLDT Digital, and subsidiary, our investment companies.

As at December 31, 2014, our chief operating decision maker, or our Management Committee, views 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, the results of operations of our BPO business for the four months ended April 30, 2013 were presented as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements for further discussion.

Management's Financial Review

In addition to consolidated net income, we use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2014 and 2013 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2014 and 2013:

	2014	2013
	(in millions)	
EBITDA from continuing operations	Php76,877	Php77,552
Add (deduct) adjustments to continuing operations:		
Other income	4,853	4,113
Equity share in net earnings of associates and joint ventures	3,841	2,742
Interest income	752	932
Gains (losses) on derivative financial instruments – net	(101)	511
Retroactive effect of adoption of Revised PAS 19[(1)]	–	(1,269)
Fixed assets and other noncurrent asset impairment	(3,844)	(2,143)
Foreign exchange losses – net	(382)	(2,893)
Amortization of intangible assets	(1,149)	(1,020)
Financing costs – net	(5,320)	(6,589)
Provision for income tax	(10,058)	(8,248)
Depreciation and amortization	(31,379)	(30,304)
Total adjustments	(42,787)	(44,168)
Net income from continuing operations	34,090	33,384
Net income from discontinued operations	–	2,069
Consolidated net income	Php34,090	Php35,453

(1) *The Revised Philippine Accounting Standards, or PAS, 19, Employee Benefits, or PAS 19, modifies the timing of recognition for termination benefits. The modification requires termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.*

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2014 and 2013:

	2014	2013
	(in millions)	
Core income from continuing operations	Php37,410	Php38,816
Core income from discontinued operations	–	(99)
Consolidated core income	37,410	38,717
Add (deduct) adjustments to continuing operations:		
Foreign exchange losses – net	(382)	(2,893)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	(79)	59
Gains on derivative financial instruments – net, excluding hedge cost	208	816
Net income (loss) attributable to noncontrolling interests	(1)	33
Retroactive effect of adoption of Revised PAS 19[(1)]	–	(1,269)
Casualty losses due to Typhoon Yolanda	–	(878)
Fixed assets and other noncurrent asset impairment	(3,844)	(2,143)
Net tax effect of aforementioned adjustments	778	843
Total adjustments	(3,320)	(5,432)
Adjustment to discontinued operations	–	2,168
Net income from continuing operations	34,090	33,384
Net income from discontinued operations	–	2,069
Consolidated net income	Php34,090	Php35,453

(1) *The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.*

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income/segment profit, EBITDA, EBITDA margin and core income for the years ended December 31, 2014 and 2013. In each of the years ended December 31, 2014 and 2013, we generated majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in millions)		
For the year ended December 31, 2014					
Revenues	Php118,879	Php67,235	Php–	(Php15,152)	Php170,962
Expenses	89,102	56,855	56	(15,556)	130,457
Other income (expenses)	(724)	(840)	5,611	(404)	3,643
Income before income tax	29,053	9,540	5,555	–	44,148
Provision for income tax	7,158	2,818	82	–	10,058
Net income/Segment profit	21,895	6,722	5,473	–	34,090
EBITDA	50,917	25,612	(56)	404	76,877
EBITDA margin[(1)]	44%	39%	–	(3%)	47%
Core income from continuing operations	25,176	6,691	5,543	–	37,410
For the year ended December 31, 2013					
Revenues	119,323	63,567	–	(14,559)	168,331
Expenses	84,674	55,975	5	(15,139)	125,515
Other income (expenses)	(3,866)	(481)	3,597	(434)	(1,184)
Income before income tax	30,783	7,111	3,592	146	41,632
Provision for (benefit from) income tax	8,862	(698)	84	–	8,248
Net income/Segment profit	21,921	7,809	3,508	146	35,453
Continuing operations	21,921	7,809	3,508	146	33,384
Discontinued operations	–	–	–	–	2,069
EBITDA from continuing operations	54,703	22,274	(5)	580	77,552
EBITDA margin[(1)]	47%	36%	–	(4%)	47%
Core income	26,499	9,061	3,110	146	38,717
Continuing operations	26,499	9,061	3,110	146	38,816
Discontinued operations	–	–	–	–	(99)
Increase (Decrease)					
Revenues	(444)	3,668	–	(593)	2,631
Expenses	4,428	880	51	(417)	4,942
Other income (expenses)	3,142	(359)	2,014	30	4,827
Income before income tax	(1,730)	2,429	1,963	(146)	2,516
Provision for income tax	(1,704)	3,516	(2)	–	1,810
Net income/Segment profit	(26)	(1,087)	1,965	(146)	(1,363)
Continuing operations	(26)	(1,087)	1,965	(146)	706
Discontinued operations	–	–	–	–	(2,069)
EBITDA	(3,786)	3,338	(51)	(176)	(675)
Core income	(1,323)	(2,370)	2,433	(146)	(1,307)
Continuing operations	(1,323)	(2,370)	2,433	(146)	(1,406)
Discontinued operations	–	–	–	–	99

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

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php170,962 million in 2014, an increase of Php2,631 million, or 2%, as compared with Php168,331 million in 2013, primarily due to higher revenues from data and other network, local exchange and miscellaneous services from our fixed line business, higher wireless broadband revenues, and an increase in our non-service revenues, partially offset by lower revenues from national and international long distance services from our fixed line business, and lower cellular services, and satellite and other services from our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php118,879	70	Php119,323	71	(Php444)	–
Fixed line	67,235	39	63,567	38	3,668	6
Inter-segment transactions	(15,152)	(9)	(14,559)	(9)	(593)	4
Consolidated	Php170,962	100	Php168,331	100	Php2,631	2

Expenses

Consolidated expenses increased by Php4,942 million, or 4%, to Php130,457 million in 2014 from Php125,515 million in 2013, as a result of higher expenses related to repairs and maintenance, cost of sales, depreciation and amortization, selling and promotions, taxes and licenses, professional and other contracted services, rent, asset impairment, communication, training and travel, amortization of intangible assets, and insurance and security, partially offset by lower expenses related to compensation and employee benefits, interconnection costs and other operating expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php89,102	68	Php84,674	67	Php4,428	5
Fixed line	56,855	44	55,975	45	880	2
Others	56	–	5	–	51	1,020
Inter-segment transactions	(15,556)	(12)	(15,139)	(12)	(417)	3
Consolidated	Php130,457	100	Php125,515	100	Php4,942	4

Other Income (Expenses)

Consolidated other income amounted to Php3,643 million in 2014, a change of Php4,827 million as against other expenses of Php1,184 million in 2013, primarily due to the combined effects of the following: (i) a decrease in foreign exchange losses by Php2,511 million mainly due to narrower dollar and peso interest rate differentials and lower level of depreciation of the Philippine peso to the U.S. dollar; (ii) a decrease in net financing costs by Php1,269 million mainly due to decreases on accretion on financial liabilities and financing charges, partly offset by a higher outstanding debt balance; (iii) an increase in the equity share in net earnings of associates by Php1,099 million mainly due to the increase in the equity share in net earnings of Beacon Electric Asset Holdings, Inc, or Beacon, Asia Outsourcing Beta Limited, or Beta, and Cignal TV, Inc., or Cignal TV; (iv) an increase in other income by Php740 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares, gain on fair value adjustment on investment property, gain on purchase price adjustment in relation with the acquisition of Digitel and higher gain on insurance claims, partly offset by the gain on sale of Philweb shares in 2013; (v) lower interest income by Php180 million due to lower weighted average interest rates, partly offset by higher principal amounts of placements and the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar; and (vi) net loss on derivative financial instruments of Php101 million in 2014 as against net gains on derivative financial instruments of Php511 million due to losses on matured Euro/U.S. dollar forward purchase contracts due to the appreciation of the U.S. dollar relative to the Euro and on matured U.S. dollar/Philippine peso forward purchase contracts in the second quarter of 2014 due to the appreciation of the Philippine peso relative to the U.S. dollar.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the years ended December 31, 2014 and 2013:

	2014	2013	Change Amount	Change %
	(in millions)			
Wireless	(Php724)	(Php3,866)	Php3,142	(81)
Fixed line	(840)	(481)	(359)	75
Others	5,611	3,597	2,014	56
Inter-segment transactions	(404)	(434)	30	(7)
Consolidated	Php3,643	(Php1,184)	Php4,827	(408)

Net Income

Consolidated net income decreased by Php1,363 million, or 4%, to Php34,090 million in 2014, from Php35,453 million, including net income from discontinued operations of Php2,069 million, in 2013. The decrease was mainly due to the combined effects of the following: (i) an increase in consolidated expenses by Php4,942 million; (ii) an increase in consolidated provision for income tax by Php1,810 million, which was mainly due to higher taxable income from our fixed line business; (iii) income from discontinued operations of Php2,069 million in 2013; (iv) an increase in consolidated revenues by Php2,631 million; and (v) an increase in consolidated other income – net by Php4,827 million. Our consolidated basic and diluted EPS decreased to Php157.51 in 2014 from consolidated basic and diluted EPS of Php163.67 in 2013. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the the years ended December 31, 2014 and 2013.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php21,895	64	Php21,921	62	(Php26)	–
Fixed line	6,722	20	7,809	22	(1,087)	(14)
Others	5,473	16	3,508	10	1,965	56
Inter-segment transactions	–	–	146	–	(146)	(100)
Continuing operations	34,090	100	33,384	94	706	2
Discontinued operations	–	–	2,069	6	(2,069)	(100)
Consolidated	Php34,090	100	Php35,453	100	(Php1,363)	(4)

EBITDA

Our consolidated EBITDA amounted to Php76,877 million in 2014, a decrease of Php675 million, or 1%, as compared with Php77,552 million in 2013, primarily due to higher cost of sales and operating expenses driven by repairs and maintenance costs, selling and promotions, taxes and licenses, professional and other contracted services, and rent, partially offset by higher consolidated revenues, and lower compensation and employee benefits, and provision for doubtful accounts.

The following table shows the breakdown of our consolidated EBITDA from continuing operations by business segment for the years ended December 31, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php50,917	66	Php54,703	70	(Php3,786)	(7)
Fixed line	25,612	33	22,274	29	3,338	15
Others	(56)	–	(5)	–	(51)	1,020
Inter-segment transactions	404	1	580	1	(176)	(30)
Continuing operations	Php76,877	100	Php77,552	100	(Php675)	(1)

Core Income

Our consolidated core income amounted to Php37,410 million in 2014, a decrease of Php1,307 million, or 3%, as compared with Php38,717 million, including negative core income from discontinued operations of Php99 million, in 2013, primarily due to higher consolidated expenses and higher provision for income tax, partially offset by higher other income and consolidated revenues. Our consolidated basic and diluted core EPS, decreased to Php172.88 in 2014 from Php178.93 in 2013.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2014 and 2013:

					Change	
	2014	%	2013	%	Amount	%
			(in millions)			
Wireless	Php25,176	67	Php26,499	69	(Php1,323)	(5)
Fixed line	6,691	18	9,061	23	(2,370)	(26)
Others	5,543	15	3,110	8	2,433	78
Inter-segment transactions	–	–	146	–	(146)	(100)
Continuing operations	37,410	100	38,816	100	(1,406)	(4)
Discontinued operations	–	–	(99)	–	99	(100)
Consolidated	Php37,410	100	Php38,717	100	(Php1,307)	(3)

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php118,879 million in 2014, a decrease of Php444 million from Php119,323 million in 2013.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2014 and 2013 by service segment:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php103,836	87	Php105,875	89	(Php2,039)	(2)
Wireless broadband, satellite and others						
Wireless broadband	10,019	9	9,432	8	587	6
Satellite and others	1,182	1	1,372	1	(190)	(14)
	115,037	97	116,679	98	(1,642)	(1)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	3,842	3	2,644	2	1,198	45
Total Wireless Revenues	Php118,879	100	Php119,323	100	(Php444)	–

Service Revenues

Our wireless service revenues in 2014 decreased by Php1,642 million, or 1%, to Php115,037 million as compared with Php116,679 million in 2013, mainly as a result of lower revenues from our cellular services due to lower domestic bucket-priced, standard and international text messaging revenues, lower international voice revenues, and lower satellite and other service revenues, partially offset by higher mobile internet, domestic voice and VAS revenues, as well as the increase in broadband service revenues. Our dollar-linked revenues were affected by the depreciation of the Philippine peso relative to the U.S. dollar, which increased to a weighted average exchange rate of Php44.40 for the year ended December 31, 2014 from Php42.44 for the year ended December 31, 2013. As a percentage of our total wireless revenues, service revenues accounted for 97% and 98% in 2014 and 2013, respectively.

Cellular Service

Our cellular service revenues in 2014 amounted to Php103,836 million, a decrease of Php2,039 million, or 2%, from Php105,875 million in 2013. Cellular service revenues accounted for 90% and 91% of our wireless service revenues in 2014 and 2013, respectively.

We have focused on segmenting the market by offering sector-specific, value-driven packages for our subscribers. These include load buckets which provide a fixed number of messages with prescribed validity months and call packages which allow a fixed number of calls of preset duration. Starting out as purely on-net packages, buckets now also offer voice, text and hybrid bundles available to all networks. Smart and *Sun Cellular* also provide packages with unlimited voice, text, data, and combinations thereof, whose denominations depend on the duration and nature of the unlimited packages.

On September 26, 2014, we launched our *Free Mobile internet* promo whereby subscribers can avail of 30MB of data usage per day, excluding video streaming, VoIP and chat applications, free of charge. The promo was effective until February 5, 2015 and extended until February 28, 2015 to also include video streaming.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Cellular service revenues	Php103,836	Php105,875	(Php2,039)	(2)
By service type	*100,777*	*103,642*	*(2,865)*	*(3)*
Prepaid	79,124	84,600	(5,476)	(6)
Postpaid	21,653	19,042	2,611	14
By component	*100,777*	*103,642*	*(2,865)*	*(3)*
Voice	50,640	51,384	(744)	(1)
Data	50,137	52,258	(2,121)	(4)
Others(1)	*3,059*	*2,233*	*826*	*37*

(1) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLDT Landline Plus, or PLP, services, a small number of leased line contracts, and revenues from Chikka, Smart eMoney Inc, or SMI, and other Smart subsidiaries.*

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

			Increase (Decrease)	
	2014	2013	Amount	%
Cellular subscriber base	69,857,060	70,045,627	(188,567)	–
Prepaid	67,091,612	67,667,750	(576,138)	(1)
Smart	*24,877,144*	*24,608,687*	*268,457*	*1*
Talk 'N Text	*28,149,360*	*29,485,017*	*(1,335,657)*	*(5)*
Sun Cellular	*14,065,108*	*13,574,046*	*491,062*	*4*
Postpaid	2,765,448	2,377,877	387,571	16
Sun Cellular	*1,725,227*	*1,488,181*	*237,046*	*16*
Smart	*1,040,221*	*889,696*	*150,525*	*17*
Systemwide traffic volumes (in million minutes)				
Calls	52,766	55,344	(2,578)	(5)
Domestic	49,525	51,504	(1,979)	(4)
Inbound	*1,120*	*1,228*	*(108)*	*(9)*
Outbound	*48,405*	*50,276*	*(1,871)*	*(4)*
International	3,241	3,840	(599)	(16)
Inbound	*2,770*	*3,216*	*(446)*	*(14)*
Outbound	*471*	*624*	*(153)*	*(25)*
SMS/Data count (in million hits)	424,344	506,702	(82,358)	(16)
Text messages	422,358	504,050	(81,692)	(16)
Domestic	421,476	503,176	(81,700)	(16)
Bucket-Priced/Unlimited	389,321	471,298	(81,977)	(17)
Standard	32,155	31,878	277	1
International	882	874	8	1
Value-Added Services	1,977	2,577	(600)	(23)
Financial Services	9	75	(66)	(88)
Mobile internet (in TB)	48,329	18,092	30,237	167

Revenues generated from our prepaid cellular services amounted to Php79,124 million in 2014, a decrease of Php5,476 million, or 6%, as compared with Php84,600 million in 2013. Prepaid cellular service revenues accounted for 79% and 82% of cellular voice and data revenues in 2014 and 2013, respectively. Revenues generated from postpaid cellular service amounted to Php21,653 million in 2014, an increase of Php2,611 million, or 14%, as compared with Php19,042 million earned in 2013, and which accounted for 21% and 18% of cellular voice and data revenues in 2014 and 2013, respectively. The decrease in revenues from our prepaid cellular services was primarily due to lower text messaging and international voice revenues, partially offset by an increase in mobile internet and domestic outbound voice revenues. The increase in our postpaid cellular service revenues was primarily due to a higher subscriber base.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php744 million, or 1%, to Php50,640 million in 2014 from Php51,384 million in 2013 primarily due to the decline in international voice revenues, partially offset by higher domestic voice revenues. Cellular voice services accounted for 49% in each of our cellular service revenues in 2014 and 2013.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php4,324	Php4,655	(Php331)	(7)
Outbound	32,131	30,619	1,512	5
	36,455	35,274	1,181	3
International				
Inbound	12,302	13,922	(1,620)	(12)
Outbound	1,883	2,188	(305)	(14)
	14,185	16,110	(1,925)	(12)
Total	Php50,640	Php51,384	(Php744)	(1)

Domestic voice service revenues increased by Php1,181 million, or 3%, to Php36,455 million in 2014 from Php35,274 million in 2013, primarily due to an increase in domestic outbound voice service revenues by Php1,512 million, partially offset by lower domestic inbound voice service revenues by Php331 million.

Revenues from domestic outbound voice service increased by Php1,512 million, or 5%, to Php32,131 million in 2014 from Php30,619 million in 2013 mainly due to higher bucket and unlimited revenues, partially offset by the decline in standard voice revenues. Domestic outbound call volumes of 48,405 million minutes decreased by 1,871 million minutes, or 4%, from 50,276 million minutes in 2013 primarily due to lower unlimited and standard voice traffic, partially offset by higher bucket voice traffic resulting in higher yield for domestic outbound voice service.

Revenues from our domestic inbound voice service decreased by Php331 million, or 7%, to Php4,324 million in 2014 from Php4,655 million in 2013 due to lower traffic originating from other mobile carriers. Domestic inbound call volumes of 1,120 million minutes in 2014, decreased by 108 million minutes, or 9%, from 1,228 million minutes in 2013.

International voice service revenues decreased by Php1,925 million, or 12%, to Php14,185 million in 2014 from Php16,110 million in 2013 primarily due to lower international inbound voice service revenues by Php1,620 million, or 12%, to Php12,302 million in 2014 from Php13,922 million in 2013, as well as the decline in international outbound voice service revenues by Php305 million, or 14%, to Php1,883 million in 2014 from Php2,188 million in 2013. The decrease in international voice service revenues was due to lower international voice traffic and average international inbound termination rate in U.S. dollar, partially offset by the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar. International inbound and outbound calls totaled 3,241 million minutes, a decrease of 599 million minutes, or 16%, from 3,840 million minutes in 2013.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS and mobile internet, 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. Cellular data services accounted for 48% and 49% of our cellular service revenues in 2014 and 2013, respectively.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Text messaging				
Domestic	Php37,211	Php41,822	(Php4,611)	(11)
Bucket-Priced/Unlimited	25,717	29,411	(3,694)	(13)
Standard	11,494	12,411	(917)	(7)
International	3,189	3,519	(330)	(9)
	40,400	45,341	(4,941)	(11)
Mobile internet(1)	8,079	4,968	3,111	63
Value-added services(2)	1,658	1,949	(291)	(15)
Total	Php50,137	Php52,258	(Php2,121)	(4)

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

(2) *Includes revenues from SMS-based VAS (info-on-demand and voice text services, net of allocated discounts and content provider costs); multi-media messaging system, or MMS-based VAS (point-to-point MMS and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs); Pasa Load/Give-a-load (which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers and Dial *SOS which allows Smart and Talk 'N Text prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up); and revenues for 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 accts, bills payment, card management and internet purchases.*

Text messaging-related services contributed revenues of Php40,400 million in 2014, a decrease of Php4,941 million, or 11%, as compared with Php45,341 million in 2013, and accounted for 81% and 87% of our total cellular data service revenues in 2014 and 2013, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower bucket-priced/unlimited and standard SMS, as well as lower international text messaging revenues. Text messaging revenues from various bucket-priced/unlimited SMS offers totaled Php25,717 million in 2014, a decrease of Php3,694 million, or 13%, as compared with Php29,411 million in 2013. Bucket-priced/unlimited text messages decreased by 81,977 million, or 17%, to 389,321 million in 2014 from 471,298 million in 2013.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php917 million, or 7%, to Php11,494 million in 2014 from Php12,411 million in 2013, mainly due to decrease in outbound standard SMS revenues primarily as a result of increased preference for messaging through various mobile applications, social networking sites and other over-the-top, or OTT, services, partly offset by the increase in domestic inbound SMS revenues. Outbound standard text messages decreased by 1,743 million, or 13%, to 11,911 million in 2014 from 13,654 million in 2013, while inbound standard text messages more than offset the decrease, increasing by 2,020 million, or 10%, to 20,244 million in 2014 from 18,224 million in 2013.

International text messaging revenues amounted to Php3,189 million in 2014, a decrease of Php330 million, or 9%, from Php3,519 million in 2013. Despite higher SMS traffic, revenues declined due mainly to lower international SMS rates driven by various promotions launched and enhanced bucket offers, partially offset by the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar.

Mobile internet service revenues increased by Php3,111 million, or 63%, to Php8,079 million in 2014 from Php4,968 million in 2013 as a result of higher traffic for mobile internet browsing mainly due to widened utilization of mobile applications, social networking sites and other OTT services. Mobile internet service registered 48,329, terabyte, or TB, in 2014, including traffic from the "Free Internet" promotion launched in September 2014, an increase of 30,237 TB, or 167%, from 18,092 TB in 2013.

VAS contributed revenues of Php1,658 million in 2014, a decrease of Php291 million, or 15%, as compared with Php1,949 million in 2013, primarily due to lower revenues from MMS-based, *Pasa Load/Give-a-Load* and SMS-based VAS.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2014, our cellular subscribers totaled 69,857,060 a decrease of 188,567, over the cellular subscriber base of 70,045,627 as at December 31, 2013. Our cellular prepaid subscriber base decreased by 576,138, or 1%, to 67,091,612 as at December 31, 2014 from 67,667,750 as at December 31, 2013, while our cellular postpaid subscriber base increased by 387,571, or 16%, to 2,765,448 as at December 31, 2014 from 2,377,877 as at December 31, 2013. The decrease in subscriber base was primarily due to lower *Talk 'N Text* subscribers by 1,335,657, or 5%, partially offset by an increase in *Sun Cellular* subscribers by 728,108, or 5%, and an increase in Smart subscribers by 418,982, or 2%. Prepaid subscribers exclude those subscribers whose minimum balance is derived via accumulation from its rewards program. Prepaid subscribers accounted for 96% and 97% of our total subscriber base as at December 31, 2014 and 2013, respectively.

Our net subscriber activations (reductions) for the years ended December 31, 2014 and 2013 were as follows:

			Increase (Decrease)	
	2014	2013	Amount	%
Prepaid	(576,138)	56,213	(632,351)	(1,125)
Smart	*268,457*	*(452,766)*	*721,223*	*(159)*
Talk 'N Text	*(1,335,657)*	*1,039,964*	*(2,375,621)*	*(228)*
Sun Cellular	*491,062*	*(530,985)*	*1,022,047*	*(192)*
Postpaid	387,571	122,956	264,615	215
Smart	*150,525*	*206,216*	*(55,691)*	*(27)*
Sun Cellular	*237,046*	*(83,260)*	*320,306*	*(385)*
Total	(188,567)	179,169	(367,736)	(205)

The following table summarizes our average monthly churn rates for the years ended December 31, 2014 and 2013:

	2014	2013
	(in %)	
Prepaid		
Smart	5.8	5.3
Talk 'N Text	5.8	5.2
Sun Cellular	9.7	10.6
Postpaid		
Smart	2.7	2.7
Sun Cellular	1.8	3.2

For *Smart Prepaid* subscribers, the average monthly churn rate in 2014 and 2013 were 5.8% and 5.3%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.8% and 5.2% in 2014 and 2013, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 9.7% and 10.6% in 2014 and 2013, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers in each of 2014 and 2013 was 2.7, while for *Sun Cellular* postpaid subscribers were 1.8% and 3.2% in 2014 and 2013, respectively.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2014 and 2013:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Prepaid								
Smart	Php143	Php164	(Php21)	(13)	Php129	Php144	(Php15)	(10)
Talk 'N Text	97	96	1	1	88	85	3	4
Sun Cellular	72	68	4	6	66	61	5	8
Postpaid								
Smart	1,088	1,140	(52)	(5)	1,078	1,127	(49)	(4)
Sun Cellular	481	483	(2)	–	477	480	(3)	(1)

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

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

Our average monthly prepaid and postpaid ARPUs per quarter of 2014 and for the four quarters in 2013 were as follows:

	Prepaid						Postpaid			
	Smart		Talk 'N Text		Sun Cellular		Smart		Sun Cellular	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
2014										
First Quarter	147	132	97	87	75	67	1,098	1,086	478	476
Second Quarter	149	134	99	89	73	66	1,081	1,074	471	467
Third Quarter	139	124	96	87	70	64	1,080	1,068	473	469
Fourth Quarter	138	125	98	89	71	65	1,095	1,084	501	497
2013										
First Quarter	160	141	98	87	66	57	1,168	1,154	458	455
Second Quarter	160	141	98	87	66	58	1,167	1,153	499	495
Third Quarter	161	142	92	82	66	60	1,111	1,099	479	476
Fourth Quarter	174	153	96	85	72	68	1,113	1,102	495	493

(1) Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.

(2) Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI and DMPI, charges for ACeS Philippines' satellite information and messaging services and service revenues generated by the MVNO of PLDT Global's subsidiary.

Wireless Broadband

Revenues from our wireless broadband services increased by Php587 million, or 6%, to Php10,019 million in 2014 from Php9,432 million in 2013, primarily due to an increase in prepaid revenues by Php350 million, or 12%, to Php3,173 million in 2014 from Php2,823 million in 2013, and higher postpaid revenues by Php237 million, or 4%, to Php6,846 million in 2014 from Php6,609 million in 2013.

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

	2014	2013	Increase (Decrease) Amount	%
Wireless Broadband Revenues (in millions)	Php10,019	Php9,432	Php587	6
Prepaid	3,173	2,823	*350*	*12*
Postpaid	6,846	6,609	*237*	*4*
Wireless Broadband Subscribers	2,986,146	2,453,826	532,320	22
Prepaid	*2,142,566*	*1,669,618*	*472,948*	28
Smart	1,795,039	1,359,862	435,177	32
Sun	347,527	309,756	37,771	12
Postpaid	*843,580*	*784,208*	*59,372*	8
Smart	514,327	549,347	(35,020)	(6)
Sun	329,253	234,861	94,392	40

Smart Broadband and *Sun Broadband Wireless*, SBI's and DMPI's broadband services, respectively, offer a number of wireless broadband services and had a total of 2,986,146 subscribers as at December 31, 2014, a net increase of 532,320 subscribers, or 22%, as compared with 2,453,826 subscribers as at December 31, 2013, primarily due to a net increase in *Smart Broadband* subscribers by 400,157, or 21%, complemented by an increase in *Sun Broadband* subscribers by 132,163, or 24%, as at December 31, 2014. Our prepaid wireless broadband subscriber base increased by 472,948 subscribers, or 28%, to 2,142,566 subscribers as at December 31, 2014 from 1,669,618 subscribers as at December 31, 2013, while our postpaid wireless broadband subscriber base increased by 59,372 subscribers, or 8%, to 843,580 subscribers as at December 31, 2014 from 784,208 subscribers as at December 31, 2013.

Smart Broadband offers internet access through *SmartBro Plug-It,* a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by multiple users at a time. Both provide connectivity at varying speeds supported by Smart's network utilizing either 3G high speed packet access (HSPA), 4G HSPA+ or Long Term Evolution (LTE)-technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. Smart Broadband also has an additional array of load packages that offer time-based charging with different validity periods, as well as *Always On* packages, which offer volume-based charging.

Smart Broadband also offers *PLDT HOMEBro,* a fixed wireless broadband service being offered under PLDT's *HOME* brand. *PLDT HOMEBro* is powered by Smart's wireless broadband base stations which allow subscribers to connect to the internet using indoor or outdoor customer premises equipment through various wireless technologies. LTE powers Ultera, our latest fixed wireless internet offering designed for the home.

DMPI's *Sun Broadband Wireless* is an affordable high-speed wireless broadband service utilizing advanced 3.5G HSPA technology on an all-IP network offering various plans and packages to internet users.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php190 million, or 14%, to Php1,182 million in 2014 from Php1,372 million in 2013, primarily due to a decrease in the number of ACeS Philippines' subscribers and lower revenue contribution from MVNO of PLDT Global, partially offset by the effect of higher weighted average exchange rate of Php44.40 in the years ended December 31, 2014 from Php42.44 for the years ended December 31, 2013 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems and accessories. Our wireless non-service revenues increased by Php1,198 million, or 45%, to Php3,842 million in 2014 from Php2,644 million in 2013, primarily due to increased availments for broadband *Pocket Wifi,* broadband accessories and computer packages, as well as higher cellular activation and retention packages, partly offset by lower quantity of broadband

Plug-It modems issued.

Expenses

Expenses associated with our wireless business amounted to Php89,102 million in 2014, an increase of Php4,428 million, or 5%, from Php84,674 million in 2013. A significant portion of this increase was attributable to higher expenses related to asset impairment, cost of sales, rent, repairs and maintenance, selling and promotions, taxes and licenses, professional and other contracted services, and amortization of intangible assets, partially offset by lower compensation and employee benefits, and other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 75% and 71% in 2014 and 2013, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2014 and 2013 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Depreciation and amortization	Php16,375	18	Php16,358	19	Php17	–
Cost of sales	11,632	13	10,182	12	1,450	14
Rent	11,008	12	10,148	12	860	8
Repairs and maintenance	8,666	10	7,861	9	805	10
Selling and promotions	8,512	10	7,944	10	568	7
Interconnection costs	8,229	9	8,141	10	88	1
Compensation and employee benefits	6,944	8	8,730	10	(1,786)	(20)
Asset impairment	5,620	6	3,918	5	1,702	43
Professional and other contracted services	5,287	6	4,841	6	446	9
Taxes and licenses	2,944	3	2,410	3	534	22
Insurance and security services	1,274	2	1,156	1	118	10
Communication, training and travel	1,084	1	1,029	1	55	5
Amortization of intangible assets	1,149	1	1,018	1	131	13
Other expenses	378	1	938	1	(560)	(60)
Total	Php89,102	100	Php84,674	100	Php4,428	5

Depreciation and amortization charges increased by Php17 million to Php16,375 million primarily due to a higher depreciable asset base.

Cost of sales increased by Php1,450 million, or 14%, to Php11,632 million primarily due to increased handset and modem issuances for cellular and broadband activation and retention, and higher average cost of cellular handsets/SIM-packs and broadband modems.

Rent expenses increased by Php860 million, or 8%, to Php11,008 million primarily due to an increase in site and leased circuit rental charges as a result of our expanded network, and an increase in office building rental.

Repairs and maintenance expenses increased by Php805 million, or 10%, to Php8,666 million mainly due to higher site maintenance and technical support on cellular and broadband network facilities as a result of our expanded network, higher electricity and fuel consumption, and higher IT hardware, partially offset by lower building maintenance costs.

Selling and promotion expenses increased by Php568 million, or 7%, to Php8,512 million primarily due to higher costs of events, premium items and prizes, as well as higher commissions expense, partially offset by lower advertising costs and public relations expense.

Interconnection costs increased by Php88 million, or 1%, to Php8,229 million primarily due to an increase in interconnection charges on international roaming and domestic SMS services, partially offset by lower interconnection cost on domestic voice and international SMS services.

Compensation and employee benefits expenses decreased by Php1,786 million, or 20%, to Php6,944 million primarily due to lower MRP and LTIP costs, and salaries and employee benefits, partly offset by higher provision for pension benefits. Employee headcount increased to 7,725 as at December 31, 2014 as compared with 7,680 as at December 31, 2013.

Asset impairment increased by Php1,702 million, or 43%, to Php5,620 million primarily due to higher impairment on certain network equipment and higher provision for uncollectible receivables.

Professional and other contracted service fees increased by Php446 million, or 9%, to Php5,287 million primarily due to an increase in audit, outsourced and contracted service fees, market research and collection agency fees, partly offset by lower consultancy service fees.

Taxes and licenses increased by Php534 million, or 22%, to Php2,944 million due to higher business-related taxes.

Insurance and security services increased by Php118 million, or 10%, to Php1,274 million primarily due to higher group health insurance, bond premiums, and site security expenses, partly offset by lower office security expenses.

Communication, training and travel expenses increased by Php55 million, or 5%, to Php1,084 million primarily due to higher fuel consumption costs for vehicles, and freight and hauling, partially offset by lower communication charges and local training expenses.

Amortization of intangible assets increased by Php131 million, or 13%, to Php1,149 million primarily due to license fees paid for exclusive partnership and use of music catalogues.

Other expenses decreased by Php560 million, or 60%, to Php378 million primarily due to lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php217	Php324	(Php107)	(33)
Equity share in net losses of associates	(11)	(54)	43	(80)
Losses on derivative financial instruments – net	(34)	(18)	(16)	89
Foreign exchange losses – net	(464)	(1,814)	1,350	(74)
Financing costs – net	(1,646)	(3,232)	1,586	(49)
Others	1,214	928	286	31
Total	(Php724)	(Php3,866)	Php3,142	(81)

Our wireless business' other expenses amounted to Php724 million in 2014, a decrease of Php3,142 million, or 81%, from Php3,866 million in 2013, primarily due to the combined effects of the following: (i) lower net financing costs by Php1,586 million primarily due to a decrease on accretion on financial liabilities as a result of lower amortization of debt discount, and lower average interest rates on loans, partly offset by lower capitalized interest; (ii) lower net foreign exchange losses by Php1,350 million on account of the revaluation of net foreign currency-denominated liabilities due to lower level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) an increase in other income by Php286 million mainly due to net gain on insurance claims; (iv) lower equity share in net losses of associates by Php43 million; (v) higher net losses on derivative financial instruments by Php16 million mainly due to the forward contracts that matured in the second quarter of 2014 where the Philippine peso appreciated relative to the U.S. dollar as against a depreciation of the Philippine peso relative to the U.S. dollar in 2013; and (vi) a decrease in interest income by Php107 million mainly due to lower weighted average peso and dollar interest rates on account of low interest rate environment.

Provision for Income Tax

Provision for income tax decreased by Php1,704 million, or 19%, to Php7,158 million in 2014 from Php8,862 million in 2013 primarily due to lower taxable income and recognition of deferred income tax. The effective tax rates for our wireless business were 25% and 29% in 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php26 million to Php21,895 million in 2014 from Php21,921 million recorded in 2013.

EBITDA

Our wireless business' EBITDA decreased by Php3,786 million, or 7%, to Php50,917 million in 2014 from Php54,703 million in 2013.

Core Income

Our wireless business' core income decreased by Php1,323 million, or 5%, to Php25,176 million in 2014 from Php26,499 million in 2013 on account of higher wireless-related operating expenses and a decrease in wireless revenues, partially offset by a decrease in other expenses and lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php67,235 million in 2014, an increase of Php3,668 million, or 6%, from Php63,567 million in 2013.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2014 and 2013 by service segment:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php16,587	25	Php16,274	26	Php313	2
International long distance	11,404	17	11,422	18	(18)	–
National long distance	4,365	6	4,583	7	(218)	(5)
Data and other network	30,334	45	27,472	43	2,862	10
Miscellaneous	2,474	4	2,119	3	355	17
	65,164	97	61,870	97	3,294	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	2,071	3	1,697	3	374	22
Total Fixed Line Revenues	Php67,235	100	Php63,567	100	Php3,668	6

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php3,294 million, or 5%, to Php65,164 million in 2014 from Php61,870 million in 2013 due to an increase in revenues from our data and other network, miscellaneous, and local exchange services, partially offset by a decrease in national and international long distance service revenues.

Local Exchange Service

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

			Increase (Decrease)	
	2014	2013	Amount	%
Total local exchange service revenues (in millions)	Php16,587	Php16,274	Php313	2
Number of fixed line subscribers	2,207,889	2,069,419	138,470	7
Postpaid	2,149,846	2,009,593	140,253	7
Prepaid	58,043	59,826	(1,783)	(3)
Number of fixed line employees	7,467	7,415	52	1
Number of fixed line subscribers per employee	296	279	17	6

Revenues from our local exchange service increased by Php313 million, or 2%, to Php16,587 million in 2014 from Php16,274 million in 2013, 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 percentage contribution of local exchange revenues to our total fixed line service revenues were 25% and 26% in 2014 and 2013, respectively.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
Total international long distance service revenues (in millions)	Php11,404	Php11,422	(Php18)	–
Inbound	10,237	10,105	132	1
Outbound	1,167	1,317	(150)	(11)
International call volumes (in million minutes, except call ratio)	2,028	2,185	(157)	(7)
Inbound	1,739	1,806	(67)	(4)
Outbound	289	379	(90)	(24)
Inbound-outbound call ratio	6.0:1	4.8:1	–	–

Our total international long distance service revenues decreased by Php18 million to Php11,404 million in 2014 from Php11,422 million in 2013, primarily due to lower call volumes, partially offset by the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar to Php44.40 for the year ended December 31, 2014 from Php42.44 for the year ended December 31, 2013 and the increase in average billing and settlement rates in dollar terms. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 17% and 19% in 2014 and 2013, respectively.

Our revenues from inbound international long distance service increased by Php132 million, or 1%, to Php10,237 million in 2014 from Php10,105 million in 2013 primarily due to the favorable effect on our inbound revenues of a higher weighted average exchange rate of the Philippine peso to the U.S. dollar and the increase in average settlement rate in dollar terms, partially offset by the decrease in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php150 million, or 11%, to Php1,167 million in 2014 from Php1,317 million in 2013, primarily due to the decrease in call volumes, partially offset by the increase in the average billing rate in dollar terms and the favorable effect of the depreciation of the Philippine peso to the U.S. dollar.

Our total international long distance service revenues, net of interconnection costs, decreased by Php151 million, or 3%, to Php4,403 million in 2014 from Php4,554 million in 2013. The decrease was primarily due to lower call volumes and a decrease in the average settlement rate in dollar terms, partially offset by the favorable effect of the depreciation of the Philippine peso to the U.S. dollar and the increase in average billing rate in dollar terms.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2014 and 2013:

			Decrease	
	2014	2013	Amount	%
Total national long distance service revenues (in millions)	Php4,365	Php4,583	(Php218)	(5)
National long distance call volumes (in million minutes)	819	852	(33)	(4)

Our national long distance service revenues decreased by Php218 million, or 5%, to Php4,365 million in 2014 from Php4,583 million in 2013, primarily due to a decrease in call volumes, partially offset by higher average revenue per minute of our national long distance services as a result of higher calls terminating to cellular mobile subscribers. The percentage contribution of national long distance revenues to our fixed line service revenues was 7% in each of 2014 and 2013. Our national long distance service revenues, net of interconnection costs, decreased by Php123 million, or 3%, to Php3,424 million in 2014 from Php3,547 million in 2013, primarily due to a decrease in call volumes.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2014 and 2013:

			Increase	
	2014	2013	Amount	%
Data and other network service revenues (in millions)	Php30,334	Php27,472	Php2,862	10
Domestic	21,848	19,917	1,931	10
Broadband	*13,876*	*12,268*	*1,608*	*13*
Leased Lines and Others	*7,972*	*7,649*	*323*	*4*
International				
Leased Lines and Others	*6,412*	*5,787*	*625*	*11*
Data Centers	2,074	1,768	306	17
Subscriber base				
Broadband	*1,089,004*	*961,967*	*127,037*	*13*
SWUP	*35,869*	*30,302*	*5,567*	*18*

Our data and other network services posted revenues of Php30,334 million in 2014, an increase of Php2,862 million, or 10%, from Php27,472 million in 2013, primarily due to higher domestic data revenues from DSL, *Fibr, Shops.Work* and Diginet, international data revenues primarily from i-Gate, and data centers revenues. The percentage contribution of this service segment to our fixed line service revenues was 47% and 45% in 2014 and 2013, respectively.

Domestic

Domestic data services contributed Php21,848 million in 2014, an increase of Php1,931 million, or 10%, as compared with Php19,917 million in 2013 mainly due to higher DSL and *Fibr* revenues, *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and higher demand for offshoring and outsourcing services and higher Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services were 72% and 73% in 2014 and 2013, respectively.

Broadband

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *Fibr*, our most advanced broadband internet connection, which is intended for individual internet users.
Broadband data revenues amounted to Php13,876 million in 2014, an increase of Php1,608 million, or 13%, from Php12,268 million in 2013 as a result of the increase in the number of subscribers by 127,037, or 13%, to 1,089,004 subscribers as at December 31, 2014 from 961,967 subscribers as at December 31, 2013. Broadband revenues accounted for 46% and 45% of total data and other network service revenues in 2014 and 2013, respectively.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN*,* a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2014, *SWUP* had a total subscriber base of 35,869, up by 5,567, or 18%, from 30,302 subscribers as at December 31, 2013. Leased lines and other data revenues amounted to Php7,972 million in 2014, an increase of Php323 million, or 4%, from Php7,649 million in 2013, primarily due to higher revenues from *Shops.Work,* Diginet and IP-VPN. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 26% and 28% in 2014 and 2013, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, which provide data networking services to multinational companies. International data service revenues increased by Php625 million, or 11%, to Php6,412 million in 2014 from Php5,787 million in 2013, primarily due to higher i-Gate revenues and IP-VPN local access services, and an increase in revenues from various global service providers, as well as the favorable effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues was 21% in each of 2014 and 2013.

Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. As at December 31, 2014, ePLDT Group has a total of 2,340 rack capacity in five locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php306 million, or 17%, to Php2,074 million in 2014 from Php1,768 million in 2013 mainly due to higher revenues from co-location and managed services. The percentage contribution of this service segment to our total data and other network service revenues were 7% and 6% in 2014 and 2013, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees, and directory advertising. These service revenues increased by Php355 million, or 17%, to Php2,474 million in 2014 from Php2,119 million in 2013 mainly due to higher outsourcing and management fees and co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues were 4% and 3% in 2014 and 2013, respectively.

Non-service Revenues

Non-service revenues increased by Php374 million, or 22%, to Php2,071 million in 2014 from Php1,697 million in 2013, primarily due to higher revenues as a result of the launching of 2-in-1 wireless HOME bundles, *FabTAB* for *myDSL* retention and *TVolution* units and from the sale of several managed PABX and *OnCall* solution, *Telpad* units and equipment for *PLDT UNO*, a managed unified communications offering, partially offset by lower *PLP* units and computer-bundled sales.

Expenses

Expenses related to our fixed line business totaled Php56,855 million in 2014, an increase of Php880 million, or 2%, as compared with Php55,975 million in 2013. The increase was primarily due to higher expenses related to depreciation and amortization, repairs and maintenance, professional and other contracted services, selling and promotions, cost of sales, communication, training and travel, and taxes and licenses, partly offset by lower expenses related to asset impairment, compensation and employee benefits, rent and interconnection costs. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 85% and 88% in 2014 and 2013, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2014 and 2013 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Depreciation and amortization	Php15,004	26	Php13,946	25	Php1,058	8
Compensation and employee benefits	11,825	21	12,668	23	(843)	(7)
Interconnection costs	8,117	14	8,196	15	(79)	(1)
Repairs and maintenance	6,956	12	5,930	10	1,026	17
Professional and other contracted services	4,183	8	3,794	7	389	10
Rent	2,619	5	2,794	5	(175)	(6)
Selling and promotions	2,126	4	1,860	3	266	14
Cost of sales	1,903	3	1,665	3	238	14
Taxes and licenses	1,568	3	1,515	3	53	3
Insurance and security services	717	1	762	1	(45)	(6)
Communication, training and travel	631	1	546	1	85	16
Asset impairment	426	1	1,625	3	(1,199)	(74)
Amortization of intangible assets	–	–	2	–	(2)	(100)
Other expenses	780	1	672	1	108	16
Total	Php56,855	100	Php55,975	100	Php880	2

Depreciation and amortization charges increased by Php1,058 million, or 8%, to Php15,004 million due to higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php843 million, or 7%, to Php11,825 million primarily due to lower MRP, LTIP costs, and salaries and employee benefits, partially offset by higher provision for pension benefits. Employee headcount decreased to 9,772 in 2014 as compared with 10,219 in 2013 mainly due to a decrease in ePLDT Group's headcount.

Interconnection costs decreased by Php79 million, or 1%, to Php8,117 million primarily due to lower national interconnection/settlement costs due to lower national sent paid calls that terminated to other domestic carriers and data and other network interconnection/settlement costs particularly Fibernet and Infonet, partially offset by higher international interconnection/settlement costs as a result of higher average settlement rate to other domestic carriers.

Repairs and maintenance expenses increased by Php1,026 million, or 17%, to Php6,956 million primarily due to higher repairs and maintenance costs on cable and wire facilities, as well as central office/telecoms equipment, an increase in office electricity expenses, higher IT software and hardware maintenance costs, and higher site gas and fuel, partially offset by lower repairs and maintenance costs for buildings.

Professional and other contracted service expenses increased by Php389 million, or 10%, to Php4,183 million primarily due to higher contracted, payment facility and technical service fees, partially offset by lower consultancy, legal fees, outsource costs and bill printing fees.

Rent expenses decreased by Php175 million, or 6%, to Php2,619 million primarily due to decrease in leased circuit rental charges.

Selling and promotion expenses increased by Php266 million, or 14%, to Php2,126 million primarily due to higher advertising, commissions, and events costs partially offset by lower public relations expenses.

Cost of sales increased by Php238 million, or 14%, to Php1,903 million primarily due to the launching of 2-in-1 wireless HOME bundles, *FabTab* for *myDSL* retention and *TVolution* units, and higher sale of *Telpad*, partially offset by lower *PLP* units sold.

Taxes and licenses increased by Php53 million, or 3%, to Php1,568 million as a result of higher business-related taxes.

Insurance and security services decreased by Php45 million, or 6%, to Php717 million primarily due to lower insurance and bond premiums, partially offset by higher expenses on office security services and group health insurance premiums.

Communication, training and travel expenses increased by Php85 million, or 16%, to Php631 million mainly due to higher training and travel, and communication, and mailing and courier charges, partly offset by lower fuel consumption costs.

Asset impairment decreased by Php1,199 million, or 74%, to Php426 million mainly due to lower provision for uncollectible receivables, partly offset by fixed asset impairment on certain transmission facilities in 2014.

Amortization of intangible assets amounted to Php2 million in 2013.

Other expenses increased by Php108 million, or 16%, to Php780 million primarily due to higher various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php350	Php392	(Php42)	(11)
Equity share in net earnings (losses) of associates	63	(86)	149	(173)
Gains on derivative financial instruments – net	11	523	(512)	(98)
Foreign exchange losses – net	(39)	(1,503)	1,464	(97)
Financing costs – net	(3,724)	(3,390)	(334)	10
Others	2,499	3,583	(1,084)	(30)
Total	(Php840)	(Php481)	(Php359)	75

Our fixed line business' other expenses amounted to Php840 million in 2014, an increase of Php359 million, or 75%, from Php481 million in 2013 due to the combined effects of the following: (i) a decrease in other income by Php1,084 million due to gain on sale of Philweb shares in 2013 and lower gain on insurance claims, partially offset by higher gain on fair value adjustment on investment properties and gain on purchase price adjustment in relation with the acquisition of Digitel recognized in 2014; (ii) lower gain on derivative financial instruments by Php512 million due to narrower dollar and peso interest rate differentials in 2014 as compared with 2013, and losses on matured Euro/U.S. dollar forward purchase contracts due to the appreciation of the U.S. dollar relative to the Euro; (iii) higher financing costs by Php334 million mainly due to higher outstanding debt balance and the effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partly offset by lower financing charges, lower average interest rate, and higher capitalized interest; (iv) a decrease in interest income by Php42 million due to lower weighted average peso and dollar interest rates, partly offset by higher amount of placements and the depreciation of the Philippine peso to the U.S. dollar; (v) lower foreign exchange losses by Php1,464 million on account of revaluation of net foreign currency-denominated liabilities due to lower level of depreciation of the Philippine peso relative to the U.S. dollar; and (vi) equity share in net earnings of associates of Php63 million in 2014 as against equity share in net losses of associates of Php86 million in 2013 mainly due the increase in the share in net earnings of Cignal TV.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php2,818 million in 2014, an increase of Php3,516 million, from a tax benefit of Php698 million in 2013 primarily due to higher taxable income and the recognition of deferred tax assets in 2013. The effective tax rates for our fixed line business were 30% and negative 10% in 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,722 million in 2014, a decrease of Php1,087 million, or 14%, as compared with Php7,809 million in 2013.

EBITDA

Our fixed line business' EBITDA increased by Php3,338 million, or 15%, to Php25,612 million in 2014 from Php22,274 million in 2013.

Core Income

Our fixed line business' core income decreased by Php2,370 million, or 26%, to Php6,691 million in 2014 from Php9,061 million in 2013, primarily as a result of higher provision for income tax, higher fixed line expenses and an increase in other expenses, partially offset by higher fixed line revenues.

Others

Other Income

The following table summarizes the breakdown of other income for other business segment for the years ended December 31, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php3,789	Php2,882	Php907	31
Interest income	295	249	46	18
Foreign exchange gains – net	121	424	(303)	(71)
Gains (losses) on derivative financial instruments – net	(78)	6	(84)	(1,400)
Financing costs-net	(60)	–	(60)	(100)
Others	1,544	36	1,508	4,189
Total	Php5,611	Php3,597	Php2,014	56

Other income increased by Php2,014 million, or 56%, to Php5,611 million in 2014 from Php3,597 million in 2013 primarily due to the combined effects of the following: (i) higher other income by Php1,508 million due to the realized portion of deferred gain on the transfer of Meralco shares; (ii) higher equity share in net earnings of associates by Php907 million mainly due to the increase in equity share in the net earnings of Beacon and Beta; (iii) an increase in interest income by Php46 million; (iv) increase in financing costs of Php60 million; (v) losses on derivative financial instruments of Php78 million in 2014 as against gains on derivative financial instruments of Php6 million in 2013; and (vi) decrease in net foreign exchange gains of Php303 million.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php5,473 million, an increase of Php1,965 million, or 56%, in 2014 from Php3,508 million in 2013.

Core Income

Our other business segment's core income amounted to Php5,543 million in 2014, an increase of Php2,433 million, or 78%, as compared with Php3,110 million in 2013 mainly as a result of higher other income.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2014 and 2013, as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2014 and 2013:

	For the years ended December 31,	
	2014	2013
	(in millions)	
Cash Flows		
Net cash flows provided by operating activities	Php66,015	Php73,763
Net cash flows used in investing activities	(51,686)	(21,045)
Capital expenditures	*34,759*	*28,838*
Net cash flows used in financing activities	(19,897)	(59,813)
Net decrease in cash and cash equivalents	(5,246)	(6,391)
	December 31,	
	2014	2013
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php115,399	Php88,924
Obligations under finance lease	1	6
	115,400	88,930
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,724	15,166
Obligations under finance lease maturing within one year	5	5
	14,729	15,171
Total interest-bearing financial liabilities	130,129	104,101
Total equity attributable to equity holders of PLDT	134,364	137,147
	Php264,493	Php241,248
Other Selected Financial Data		
Total assets	Php436,295	Php399,638
Property, plant and equipment	191,984	192,665
Cash and cash equivalents	26,659	31,905
Short-term investments	643	718

Our consolidated cash and cash equivalents and short-term investments totaled Php27,302 million as at December 31, 2014. Principal sources of consolidated cash and cash equivalents in 2014 were cash flows from operating activities amounting to Php66,015 million, proceeds from availment of long-term debt of Php41,329 million, dividends received of Php1,855 million, net proceeds from maturity and redemption of investment in debt securities of Php1,602 million, interest received of Php582 million and proceeds from disposal of property, plant and equipment of Php253 million. These funds were used principally for: (1) dividend payments of Php39,900 million; (2) capital outlays, including capitalized interest, of Php34,759 million; (3) purchase of investments available for sale of Php19,711 million; (4) debt principal and interest payments of Php15,726 million and Php4,736 million, respectively; (5) settlement of derivative financial instruments of Php596 million; (6) deposit for future PDRs of Php300 million; (7) payment for purchase of investment in joint ventures and associates of Php300 million; and (8) payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php202 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php32,623 million as at December 31, 2013. Principal sources of consolidated cash and cash equivalents in 2013 were cash flows from operating activities amounting to Php73,763 million, proceeds from availment of long-term debt of Php39,798 million, proceeds from disposal of investments, net of cash of deconsolidated subsidiaries, of Php12,075 million, proceeds from net assets classified as held-for-sale of Php2,298 million, proceeds from disposal of property, plant and equipment of Php1,546 million, net additions to capital expenditures under long-term financing of Php868 million, interest received of Php845 million and dividends received of Php438 million. These funds were used principally for: (1) debt principal and interest payments of Php57,033 million and Php4,959 million, respectively; (2) dividend payments of Php37,804 million; (3) capital outlays, including capitalized interest, of Php28,838 million; (4) deposits for PDR subscription of Php5,550 million; (5) net payment for purchase of investment in debt securities of Php2,046 million; and (6) settlements of derivative financial instruments of Php453 million.

Operating Activities

Our consolidated net cash flows provided by operating activities decreased by Php7,748 million, or 11%, to Php66,015 million in 2014 from Php73,763 million in 2013, primarily due to lower level of collection of receivables, higher pension contribution and higher corporate taxes paid, partially offset by lower settlement of accounts payable and other liabilities, and higher prepayments.

Cash flows provided by operating activities of our fixed line business decreased by Php11,724 million, or 39%, to Php18,145 million in 2014 from Php29,869 million in 2013, primarily due to lower level of collection of accounts receivable and other receivables, higher pension contribution, higher prepayments and lower operating income, partially offset by lower level of settlement of accounts payable. Cash flows provided by operating activities of our wireless business decreased by Php717 million, or 1%, to Php49,884 million in 2014 from Php50,601 million in 2013, primarily due to lower operating income and lower level of collection of outstanding receivables, partially offset by lower level of settlement of accounts payable and other liabilities, and lower pension contribution. Cash flows used in operating activities of our other business amounted to Php1,818 million in 2014 as against cash flows provided by operating activities of Php3,155 million in 2013 primarily due to collection of receivables and lower level of settlement of accounts payable in 2013.

Investing Activities

Consolidated net cash flows used in investing activities increased by Php30,641 million, or 146%, to Php51,686 million in 2014 from Php21,045 million in 2013, primarily due to the combined effects of the following: (1) higher purchase of investments available for sale of Php19,695 million mainly due to our investment in Rocket Internet, AG, or Rocket, in 2014 (see related discussion in Other Information); (2) net proceeds from disposal of investments, including sale of Philweb shares, of Php14,370 million in 2013; (3) the increase in capital expenditures by Php5,921 million; (4) higher net proceeds from maturity and redemption of investment in debt securities of Php3,648 million; (5) higher payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php196 million; (6) lower interest received by Php263 million; (7) higher dividends received by Php1,417 million; and (8) a decrease in payment for deposit for future PDRs subscription of Php5,250 million.

Our consolidated capital expenditures, including capitalized interest, in 2014 totaled Php34,759 million, an increase of Php5,921 million, or 21%, as compared with Php28,838 million in 2013, primarily due to Smart Group's higher capital spending, partially offset by PLDT's and DMPI's lower capital spending. PLDT's capital spending of Php10,697 million in 2014 was principally used to finance the full public switched telephone network migration, aggressive Fiber-to-the-Home and NGN roll-out and expansion, outside plant rehabilitation, build and upgrade of various submarine cable facilities, fortification of transport backbone, expansion of access fiber and various customer premises equipment acquisition to complement introduction of new products and services. Smart Group's capital spending of Php22,124 million in 2014 was used primarily to modernize and expand its 3G/4G cellular and mobile broadband networks, including the roll-out of LTE network, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. DMPI's capital spending of Php917 million in 2014 was intended principally to finance the continued upgrade of its core and transmission network to increase coverage, particularly in provincial areas. As at December 31, 2014, we had a total of 26,242 cellular/broadband base stations, including 11,083 active 4G/HSPA+/LTE-base stations. The balance represented other subsidiaries' capital spending.

As part of our growth strategy, we may continue to make acquisitions and investments in companies or businesses whenever we deem such acquisitions and investments will contribute to our growth.

Financing Activities

On a consolidated basis, cash flows used in financing activities amounted to Php19,897 million in 2014, a decrease of Php39,916 million, or 67%, from Php59,813 million in 2013, resulting largely from the combined effects of the following: (1) lower net payments of long-term debt by Php41,307 million; (2) higher proceeds from availment of long-term debt by Php1,531 million; (3) lower interest payment by Php223 million; (4) higher cash dividend payments of Php2,096 million; (5) net reductions to capital expenditures under long-term financing by Php952 million; and (6) settlement of derivative financial instruments of Php143 million.

Debt Financing

Proceeds from availment of long-term debt for the year ended December 31, 2014 amounted to Php41,329 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php15,726 million and Php4,736 million, respectively, in 2014.

Our consolidated long-term debt increased by Php26,033 million, or 25%, to Php130,123 million as at December 31, 2014 from Php104,090 million as at December 31, 2013, primarily due to our issuance of Php15 billion fixed rate retail bonds in 2014, drawings from our term loan facilities and the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php44.74 as at December 31, 2014 from Php44.40 as at December 31, 2013, partially offset by debt amortizations and prepayments. As at December 31, 2014, the long-term debt levels of PLDT and Smart increased by 38% and 20%, to Php78,812 million and Php42,730 million, respectively, while DMPI's long-term debt level decreased by 25%, to Php8,581 million, as compared with December 31, 2013.

On January 29, 2014, Smart signed a Php3,000 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php3,000 million was fully drawn on February 5, 2014. The amount of Php2,987 million, net of unamortized debt discount, remained outstanding as at December 31, 2014.

On February 3, 2014, Smart signed a Php500 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php500 million was fully drawn on February 7, 2014 and remained outstanding as at December 31, 2014.

On February 6, 2014, PLDT issued Php15,000 million Philippine SEC-registered fixed rate peso retail bonds under the Indenture dated January 22, 2014. Proceeds from the issuance of these bonds are intended to be used to finance capital expenditures and/or refinance existing obligations which were used for capital expenditures for network expansion and improvements. The amount comprises of Php12.4 billion and Php2.6 billion bonds due in 2021 and 2024, with a coupon rate of 5.2250% and 5.2813%, respectively. The amount of Php14,865 million, net of unamortized debt discount, remained outstanding as at December 31, 2014.

On March 7, 2014, Smart signed a US$100 million term loan facility agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing twelve months after drawdown date, with final installment on March 7, 2019. The loan was partially drawn in the amounts of US$35 million, US$30 million and US$25 million on March 24, 2014, August 1, 2014, and November 24, 2014, respectively. The amount of US$88 million, or Php3,958 million, net of unamortized debt discount, remained outstanding as at December 31, 2014.

On March 26, 2014, Smart signed a Php2,000 million term loan facility agreement with Union Bank of the Philippines to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021. The amount of Php2,000 million was fully drawn on March 28, 2014 and remained outstanding as at December 31, 2014.

On April 2, 2014, PLDT signed a Php1,500 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 4, 2024. The amount of Php1,500 million was fully drawn on April 4, 2014 and remained outstanding as at December 31, 2014.

On April 2, 2014, Smart signed a Php500 million term loan facility agreement with Banco de Oro Unibank, Inc. to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021. The amount of Php500 million loan was fully drawn on April 4, 2014 and remained outstanding as at December 31, 2014.

On May 14, 2014, Smart signed a US$50 million term loan facility agreement with Mizuho Bank Ltd., Singapore Branch to finance the capital expenditures for its network upgrade and expansion program. The loan is payable over five years in nine equal semi-annual installments commencing eleven months after drawdown date, with final installment on May 14, 2019. The loan was fully drawn on July 1, 2014. The amount of US$49 million, or Php2,207 million, net of unamortized debt discount, remained outstanding as at December 31, 2014.

On May 23, 2014, PLDT signed a Php1,000 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on May 28, 2024. The amount of Php1,000 million was fully drawn on May 28, 2014 and remained outstanding as at December 31, 2014.

On June 9, 2014, PLDT signed a Php1,000 million term loan facility agreement with LBP to finance its capital expenditure requirements. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity on June 13, 2024. The amount of Php1,000 million was fully drawn on June 13, 2014 and remained outstanding as at December 31, 2014.

On July 28, 2014, PLDT signed a Php1,500 million term loan facility with UBP to finance its capital expenditures and/or refinance its existing loan obligations, the proceeds of which were utilized for its service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity on July 31, 2024. The amount of Php1,500 million was fully drawn on July 31, 2014 and remained outstanding as at December 31, 2014.

On August 5, 2014, PLDT signed a US$100 million term loan facility agreement with Philippine National Bank, or PNB, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date and the balance payable upon maturity on August 11, 2020. Two separate drawdowns of US$50 million each were drawn on August 11, 2014 and August 15, 2014. The amount of US$100 million, or Php4,474 million, remained outstanding as at December 31, 2014.

On August 29, 2014, PLDT signed a US$50 million term loan facility agreement with Metropolitan Bank and Trust Company, or Metrobank, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over six years with a semi-annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date and the balance payable upon maturity on September 2, 2020.

The loan was drawn in full on September 2, 2014. The amount of US$50 million, or Php2,237 million, remained outstanding as at December 31, 2014.

On February 25, 2015, PLDT signed a Php 2,000 million term loan facility with BPI to finance its capital expenditures and/or refinance its existing loan obligations, the proceeds of which were utilized for its service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity. As at March 3, 2015, no drawdown has been made for this loan.

On February 26, 2015, PLDT signed a US$200 million term loan facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditure requirements for network expansion and improvement and/or to refinance existing indebtedness proceeds of which were utilized for service improvement and network expansion. The loan is comprised of two tranches: Tranche A amounting to US$150 million which carries a floating interest rate and Tranche B amounting to US$50 which carries a floating interest rate on the first year and a fixed interest rate on the second year until maturity of the loan. Both Tranches are payable over seven years commencing on the date which falls 36 months after the date of the agreement, with semi-annual amortizations of 23.75% of the loan amount on the first and second repayment dates and seven semi-annual amortizations of 7.5% of the loan amount starting on the third repayment date. As of March 3, 2015, no drawdown has been made for this loan.

Approximately Php64,261 million principal amount of our consolidated outstanding long-term debt as at December 31, 2014 is scheduled to mature over the period from 2015 to 2018. Of this amount, Php31,120 million is attributable to PLDT, Php25,969 million to Smart and Php7,172 million to DMPI.

For a complete discussion of our long-term debt, see *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements.

Debt Covenants

As a result of the acquisition of Digitel, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGSHI, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGSHI. These loans and guarantees contained certain representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGSHI by PLDT as guarantor under these loans. As at December 31, 2014, the outstanding balance of DMPI loans covered by PLDT guarantees is Php8,581 million. There are no outstanding Digitel loans covered by PLDT guarantees as at December 31, 2014.

Our consolidated debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

As at December 31, 2014 and 2013, we are in compliance with all of our debt covenants.

See *Note 21 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying audited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months.

Off-Balance Sheet Arrangements

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

Equity Financing

On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013 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, are not available for distribution unless realized in the form of dividends from such subsidiaries.

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

Consolidated cash dividend payments in 2014 amounted to Php39,900 million as compared with Php37,804 million paid to shareholders in 2013.

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

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
				(in millions, except per share amount)	
2014					
Common					
Regular Dividend	August 5, 2014	August 28, 2014	September 26, 2014	69.00	Php14,908
Regular Dividend	March 3, 2015	March 17, 2015	April 16, 2015	61.00	13,179
Special Dividend	March 3, 2015	March 17, 2015	April 16, 2015	26.00	5,618
					33,705
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	Various	Various	Various	–	49
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	–
Voting Preferred Stock	Various	Various	Various		10
Charged to Retained Earnings					Php33,764
2013					
Common					
Regular Dividend	August 7, 2013	August 30, 2013	September 27, 2013	63.00	13,611
Regular Dividend	March 4, 2014	March 18, 2014	April 16, 2014	62.00	13,395
Special Dividend	March 4, 2014	March 18, 2014	April 16, 2014	54.00	11,667
					38,673
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	Various	Various	Various	–	49
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	–
Voting Preferred Stock	Various	Various	Various		10
Charged to Retained Earnings					Php38,732

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

See *Note 20 – Equity* to the accompanying audited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2014 and 2013, see *Note 28 – Financial Assets and Liabilities – Liquidity Risks* to the accompanying audited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php32 million and Php20 million as at December 31, 2014 and 2013, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

For further discussions of these risks, see *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at December 31, 2014 and September 30, 2014 other than those whose carrying amounts are reasonable approximations of fair values:

	Fair Values	
	December 31, 2014	September 30, 2014
	(Audited) (in millions)	
Noncurrent Financial Assets		
Investments in debt securities and other long-term investments – net of current portion	Php969	Php2,657
Advances and other noncurrent assets – net of current portion	2,346	3,891
Total noncurrent financial assets	Php3,315	Php26,530
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php118,945	Php119,587
Customers' deposits	1,902	1,934
Deferred credits and other noncurrent liabilities	18,360	16,189
Total noncurrent financial liabilities	Php139,207	Php139,213

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2014 and nine months ended September 30, 2014:

	December 31, 2014	September 30, 2014
	(Audited) (in millions)	
Profit and Loss		
From continuing operations		
Interest income	Php752	Php567
Gains (losses) on derivative financial instruments – net	(101)	13
Accretion on financial liabilities	(165)	(119)
Interest on loans and other related items	(5,429)	(3,976)
Other Comprehensive Income		
Net fair value gains (losses) on cash flow hedges – net of tax	(74)	21
Net gains (losses) on available-for-sale financial investments – net of tax	8,144	(4)

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2014 and 2013 were 4.1% and 2.9%, respectively. Moving forward, we currently expect inflation to remain low, which may have an impact on our operations.

PART II – OTHER INFORMATION

Investment in MePay Global

On January 6, 2015, PLDT, through Smart, entered into a joint venture agreement with Rocket, wherein the two parties agreed to form MePay Global, with each partner holding a 50% equity interest. MePay Global is a joint venture for payment services with a focus on emerging markets. PLDT will contribute the intellectual property, platforms and business operations of its market-leading mobile-first platform, Smart e-Money Inc., a wholly-owned subsidiary of Smart. Rocket will contribute, amongst others, 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.

Investment in Philippine Internet Group, or 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 Innovations, Inc., a wholly-owned subsidiary of Smart, 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 like 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% stake 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.

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 value of US$235 million. AOGL is a wholly-owned subsidiary of Asia Outsourcing Beta Limited, or 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 distribution of US$42 million from Beta.

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.

Pursuant to the terms of the partnership agreement, PLDT invested €333 million, or Php19,577 million, in cash, for new shares equivalent to a 10% stake in Rocket. These new shares are of the same class and bear the same rights as the Rocket shares held by the current investors then, namely: Investment AB Kinnevik and Access Industries, in addition to Global Founders GmbH (formerly: European Founders Fund GmbH). PLDT fully paid the €333 million investment in two tranches on September 8 and 15, 2014, which it funded from available cash and new debt. In line 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 Rocket Supervisory Board.

Concurrent with the investment, PLDT and Rocket agreed 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.

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 drive future value-enhancing growth opportunities.

On August 15, 2014, United Internet AG announced its strategic investment in Rocket and invested a total of €435 million for a 10.7% stake in Rocket. In addition, the equity participation of Global Founders Fund in Global Founders Capital valued at €153 million was contributed into Rocket. Following these transactions, PLDT's ownership in Rocket was reduced to 8.6%.

On August 21, 2014, Rocket announced the contribution by Holtzbrinck Ventures of its entire stakes in seven of Rocket's most developed e-commerce businesses into Rocket in exchange for a 2.5% equity stake in Rocket. This further reduced PLDT's stake in Rocket to 8.4%.

Also on August 21, 2014, PLDT and PLDT Online Investments Pte. Ltd., or PLDT Online, a wholly-owned subsidiary of PLDT Digital, which is a wholly-owned subsidiary of PLDT, entered into an Assignment Agreement, wherein PLDT assigned all its rights, title and interest as well as its entire obligations related to its investment in Rocket to PLDT Online.

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 in 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 is €519 million or Php27,855 million. The unrealized gain 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.

On February 13, 2015, Rocket increased its share capital through partial utilization of its authorized capital. Rocket issued 12 million shares priced at €49 per share through a private placement that raised €588.5 million before deduction of commissions and expenses. As a result, PLDT's ownership in Rocket was reduced from 6.6% to 6.1%. Rocket intends to use the net proceeds from the capital increase in the pursuit of its strategic goals.

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. Alongside e-Commerce and marketplaces, financial technology and payments comprise Rocket's third sector where it anticipates numerous and significant growth opportunities.

Sale of Beacon's Meralco Shares to Metro Pacific Investments Corporation, or MPIC

On June 24, 2014, Beacon and MPIC, with PCEV's conformity, entered into a Share Purchase Agreement to sell 56 million common shares, comprising of approximately 5% interest in Meralco to MPIC at a price of Php235 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 will be payable on or before February 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%.

IPCDSI's Acquisition of Rack I.T. Data Center, Inc., or Rack IT

On January 28, 2014, IPCDSI entered into a Sale and Purchase Agreement with a third party to acquire 100% ownership in Rack IT with total purchase price of Php164 million. 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 held its inauguration on December 3, 2014. However, as at March 3, 2015, Rack IT is still in its pre-operating phase.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 25 – Related Party Transactions* to the accompanying audited consolidated financial statements.

ANNEX I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at December 31, 2014:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php17,053	Php5,740	Php1,420	Php374	Php9,519
Foreign administrations	8,420	1,574	859	612	5,375
Corporate subscribers	7,941	1,485	1,516	648	4,292
Domestic carriers	823	210	166	96	351
Dealers, agents and others	10,485	7,484	2,120	97	784
Total	44,722	Php16,493	Php6,081	Php1,827	Php20,321
Less: Allowance for doubtful accounts	15,571				
Total Receivables - net	Php29,151				

ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at December 31, 2014 and 2013:

	2014	2013
Current Ratio[1]	0.53:1.0	0.52:1.0
Net Debt to Equity Ratio[2]	0.77:1.0	0.52:1.0
Net Debt to EBITDA Ratio[3]	1.34:1.0	0.92:1.0
Total Debt to EBITDA Ratio[4]	1.69:1.0	1.34:1.0
Asset to Equity Ratio[5]	3.25:1.0	2.91:1.0
Interest Coverage Ratio[6]	9.24:1.0	7.03:1.0
Profit Margin[7]	20%	21%
Return on Assets[8]	8%	9%
Return on Equity[9]	25%	25%
EBITDA Margin[10]	47%	47%

[1] Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)
[2] Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.
[3] Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the year.
[4] Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) divided by EBITDA for the year.
[5] Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.
[6] Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the year, divided by total financing cost for the year.
[7] Profit margin is derived by dividing net income for the year with total revenues for the year.
[8] Return on assets is measured as net income for the year divided by average total assets.
[9] Return on Equity is measured as net income for the year divided by average total equity attributable to equity holders of PLDT.
[10] EBITDA margin for the year is measured as EBITDA divided by service revenues for the year.
EBITDA for the year is measured as net income for the year excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net for the year.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the fourth quarter of 2014 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________

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

Signature and Title: ______________________________

JUNE CHERYL A. CABAL-REVILLA
First Vice President and Controller
(Principal Accounting Officer)

Date: March 3, 2015