



FINANCIAL REVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes as at and for the three years in the period ended December 31, 2013 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.

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 bases 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; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *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 Digitel, all of which together account for approximately 8% 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.; and bills printing and other value-added services, or VAS, related services provided by ePDS, Inc., or ePDS; and
- *Others* — Philippine Global Investment Holdings, Inc., PLDT Global Investments Corporation and PLDT Communications and Energy Ventures, Inc., or PCEV, our investment companies.

Adoption of New Standards and Interpretations

Our accounting policies are consistent with those of the previous financial year except for the adoption of the new standard, interpretations and amendments to existing standards which became effective as at January 1, 2013. The adoption of these amendments resulted in changes to our accounting policies but did not have any impact on our financial position or performance. Please see *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements for further discussion.

Discontinued Operations

As at December 31, 2013, 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, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012. The results of operations of our BPO business for the four months ended April 30, 2013 and for the years ended December 31, 2012 and 2011 were presented as discontinued operations.

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 is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses). 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 because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present 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, nor should EBITDA be considered as an alternative to cash flows from operating activities, as a measure of liquidity or as an alternative to any other measure determined in accordance with 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.

A reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2013, 2012 and 2011 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with 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 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. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2013, 2012 and 2011 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Management's Financial Review

We use our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2013, 2012 and 2011 is set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2013, 2012 and 2011:

	2013	2012 ⁽¹⁾	2011 ^(1,2)
		(in millions)	
EBITDA from continuing operations	77,552	75,388	78,225
Add (deduct) adjustments to continuing operations:			
Other income	4,113	5,813	2,626
Equity share in net earnings of associates and joint ventures	2,742	1,538	2,035
Interest income	932	1,354	1,357
Gains (losses) on derivative financial instruments – net	511	(2,009)	201
Amortization of intangible assets	(1,020)	(921)	(117)
Retroactive effect of adoption of Revised PAS 19 ⁽²⁾	(1,269)	1,287	–
Asset impairment	(2,143)	(2,896)	(8,514)
Foreign exchange gains (losses) – net	(2,893)	3,282	(735)
Financing costs – net	(6,589)	(6,876)	(6,454)
Provision for income tax	(8,248)	(8,050)	(10,734)
Depreciation and amortization	(30,304)	(32,354)	(27,539)
Total adjustments	(44,168)	(39,832)	(47,874)
Net income from continuing operations	33,384	35,556	30,351
Net income from discontinued operations	2,069	543	867
Consolidated net income	35,453	36,099	31,218

⁽¹⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽²⁾ Includes the Digital Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2013, 2012 and 2011:

	2013	2012 ⁽¹⁾	2011 ^(1,2)
		(in millions)	
Core income from continuing operations	38,816	36,356	37,827
Core income from discontinued operations	(99)	551	789
Consolidated core income	38,717	36,907	38,616
Add (deduct) adjustments to continuing operations:			
Gains (losses) on derivative financial instruments – net, excluding hedge cost	816	(1,689)	564
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	59	(91)	(476)
Net income (loss) attributable to noncontrolling interests	33	(49)	(60)
Casualty losses due to Typhoon Yolanda	(878)	–	–
Retroactive effect of adoption of Revised PAS 19 ⁽²⁾	(1,269)	1,287	–
Asset impairment on noncurrent assets	(2,143)	(2,896)	(8,514)
Foreign exchange gains (losses) – net	(2,893)	3,282	(741)
Net tax effect of aforementioned adjustments	843	(644)	1,608
Others	–	–	143
Total adjustments	(5,432)	(800)	(7,476)
Adjustment to discontinued operations	2,168	(8)	78
Net income from continuing operations	33,384	35,556	30,351
Net income from discontinued operations	2,069	543	867
Consolidated net income	35,453	36,099	31,218

⁽¹⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽²⁾ Includes the Digital Group's core income for the period from October 26, 2011 to December 31, 2011.

Summary Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2013, 2012 and 2011. In each of the years ended December 31, 2013 and 2012, a majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in millions)					
For the year ended December 31, 2013					
Revenues	Php119,323	Php63,567	Php-	(Php14,559)	Php168,331
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 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)
For the year ended December 31, 2012⁽²⁾					
Revenues	115,932	60,246	-	(13,145)	163,033
Expenses	83,717	52,776	18	(13,982)	122,529
Other income (expenses)	893	(1,781)	4,358	(368)	3,102
Income before income tax	33,108	5,689	4,340	469	43,606
Provision for income tax	8,094	(51)	7	-	8,050
Net income/Segment profit	25,014	5,740	4,333	469	36,099
Continuing operations	25,014	5,740	4,333	469	35,556
Discontinued operations	-	-	-	-	543
EBITDA from continuing operations	54,480	20,089	(18)	837	75,388
EBITDA margin ⁽¹⁾	48%	34%	-	(6%)	47%
Core income	25,694	5,769	4,424	469	36,907
Continuing operations	25,694	5,769	4,424	469	36,356
Discontinued operations	-	-	-	-	551
For the year ended December 31, 2011^(2, 3)					
Revenues	103,538	58,290	-	(13,349)	148,479
Expenses	71,009	49,174	11	(13,770)	106,424
Other income (expenses)	(1,734)	(966)	1,998	(268)	(970)
Income before income tax	30,795	8,150	1,987	153	41,085
Provision for income tax	8,429	2,303	2	-	10,734
Net income/Segment profit	22,366	5,847	1,985	153	31,218
Continuing operations	22,366	5,847	1,985	153	30,351
Discontinued operations	-	-	-	-	867
EBITDA from continuing operations	55,433	22,382	(11)	421	78,225
EBITDA margin ⁽¹⁾	54%	39%	-	(3%)	54%
Core income	29,903	5,310	2,461	153	38,616
Continuing operations	29,903	5,310	2,461	153	37,827
Discontinued operations	-	-	-	-	789

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

⁽²⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits and certain presentation adjustments to conform with the current presentation of our business segments. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽³⁾ Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011.

In the following discussion and analysis of our financial condition and results of operations for financial year 2013, 2012 and 2011, our results of operations for 2013 and 2012 consolidate the results of operations of the Digitel Group (including DMPI) for the full year in 2013 and 2012 while the results of operations for 2011 consolidate the results of Digitel's operations only from October 26, 2011 to December 31, 2011. Therefore, in the following section, references to increase in contribution from Digitel or DMPI in 2012 for a particular line item, such as revenues or expenses, should be read to describe the result of the inclusion of Digitel's or DMPI's results of operations in our consolidated results of operations for the full year in 2012 as compared to the more limited period in 2011 and does not necessarily reflect an actual increase in the historical amount of such line item by Digitel or DMPI in 2012 from 2011.

2013 Compared to 2012

Wireless

Revenues

We generated revenues from our wireless business of Php119,323 million in 2013, an increase of Php3,391 million, or 3%, from Php115,932 million in 2012, which was primarily due to higher revenues from our cellular and wireless broadband services.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2013 and 2012 by service segment:

	2013		2012 ⁽¹⁾		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php105,875	89	Php103,604	89	Php2,271	2
Wireless broadband, and satellite and others						
Wireless broadband	9,432	8	8,606	8	826	10
Satellite and others	1,372	1	1,569	1	(197)	(13)
	116,679	98	113,779	98	2,900	3
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	2,644	2	2,153	2	491	23
Total Wireless Revenues	Php119,323	100	Php115,932	100	Php3,391	3

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Service Revenues

Our wireless service revenues in 2013, increased by Php2,900 million, or 3%, to Php116,679 million as compared with Php113,779 million in 2012, mainly as a result of higher revenues from our cellular and wireless broadband services, partially offset by lower revenues from our satellite and other services. The increase in our cellular revenues was mainly due to higher domestic voice, and mobile internet revenues, partially offset by the decrease in text messaging revenues, lower international voice and other cellular service revenues. The increase in our wireless broadband revenues was mainly due to a 4% growth in our broadband subscriber base. 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 Php42.44 for the year ended December 31, 2013 from Php42.24 for the year ended December 31, 2012. As a percentage of our total wireless revenues, service revenues accounted for 98% in each of 2013 and 2012.

Cellular Service

Our cellular service revenues in 2013 amounted to Php105,875 million, an increase of Php2,271 million, or 2%, from Php103,604 million in 2012. Cellular service revenues accounted for 91% of our wireless service revenues in each of 2013 and 2012.

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 periods 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.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾	Increase (Decrease)	
			Amount	%
		(in millions)		
Cellular service revenues	Php105,875	Php103,604	Php2,271	2
<i>By service type</i>	103,642	101,042	2,600	3
Prepaid	84,600	84,525	75	–
Postpaid	19,042	16,517	2,525	15
<i>By component</i>	103,642	101,042	2,600	3
Voice	51,384	49,627	1,757	4
Data	52,258	51,415	843	2
<i>Others</i> ⁽³⁾	2,233	2,562	(329)	(13)

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽²⁾ 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 and other Smart subsidiaries.

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

	2013	2012	Increase (Decrease)	
			Amount	%
Cellular subscriber base	70,045,627	69,866,458	179,169	–
Prepaid	67,667,750	67,611,537	56,213	–
Smart	24,608,687	25,061,453	(452,766)	(2)
Talk 'N Text	29,485,017	28,445,053	1,039,964	4
Sun Cellular	13,574,046	14,105,031	(530,985)	(4)
Postpaid	2,377,877	2,254,921	122,956	5
Sun Cellular	1,488,181	1,571,441	(83,260)	(5)
Smart	889,696	683,480	206,216	30
Systemwide traffic volumes (in million minutes) ⁽¹⁾				
Calls	55,094	53,025	2,069	4
Domestic	51,504	49,597	1,907	4
Inbound	1,228	1,242	(14)	(1)
Outbound	50,276	48,355	1,921	4
International	3,590	3,428	162	5
Inbound	3,216	3,025	191	6
Outbound	374	403	(29)	(7)
SMS/Data count (in million hits) ⁽¹⁾	506,702	501,964	4,738	1
Text messages	504,050	500,039	4,011	1
Domestic	503,176	499,191	3,985	1
Bucket-Priced/Unlimited	471,298	468,898	2,400	–
Standard	31,878	30,293	1,585	5
International	874	848	26	3
Value-Added Services	2,577	1,872	705	38
Financial Services	75	53	22	42
Mobile internet (in TB)	18,092	4,954	13,138	265

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Revenues generated from our prepaid cellular services amounted to Php84,600 million in 2013, an increase of Php75 million as compared with Php84,525 million in 2012. Prepaid cellular service revenues accounted for 82% and 84% of cellular voice and data revenues in 2013 and 2012, respectively. Revenues generated from postpaid cellular service amounted to Php19,042 million in 2013, an increase of Php2,525 million, or 15%, as compared with Php16,517 million earned in 2012, and which accounted for 18% and 16% of cellular voice and data revenues in 2013 and 2012, respectively. The increase in revenues from our prepaid cellular services was primarily due to an increase in domestic outbound voice revenues and mobile internet, partially offset by a decline in international outbound revenues. The increase in our postpaid cellular service revenues was primarily due to an increase in postpaid subscribers of Smart from 889,696 in 2013 from 683,480 in 2012 due to higher activations.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php1,757 million, or 4%, to Php51,384 million in 2013 from Php49,627 million in 2012, primarily due to higher cellular domestic voice revenues, partially offset by lower cellular international voice revenues. Cellular voice services accounted for 49% and 48% of our cellular service revenues in 2013 and 2012, respectively.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾ (in millions)	Increase (Decrease)	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php4,655	Php4,737	(Php82)	(2)
Outbound	30,619	28,440	2,179	8
	35,274	33,177	2,097	6
<i>International</i>				
Inbound	13,922	13,838	84	1
Outbound	2,188	2,612	(424)	(16)
	16,110	16,450	(340)	(2)
Total	Php51,384	Php49,627	Php1,757	4

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Domestic voice service revenues increased by Php2,097 million, or 6%, to Php35,274 million in 2013 from Php33,177 million in 2012, primarily due to an increase in domestic outbound voice service revenues by Php2,179 million, partially offset by lower domestic inbound voice service revenues by Php82 million.

Revenues from domestic outbound voice service increased by Php2,179 million, or 8%, to Php30,619 million in 2013 from Php28,440 million in 2012 mainly due to increased traffic on unlimited calls and improved yield on bucket offers. Domestic outbound call volume of 50,276 million minutes increased by 1,921 million minutes, or 4%, from 48,355 million minutes in 2012.

Revenues from our domestic inbound voice service decreased by Php82 million, or 2%, to Php4,655 million in 2013 from Php4,737 million in 2012. Domestic inbound call volumes of 1,228 million minutes in 2013, decreased by 14 million minutes, or 1%, from 1,242 million minutes in 2012 primarily due to lower traffic from fixed line calls.

International voice service revenues decreased by Php340 million, or 2%, to Php16,110 million in 2013 from Php16,450 million in 2012 primarily due to the decline in international outbound voice service revenues by Php424 million, or 16%, to Php2,188 million in 2013 from Php2,612 million in 2012, partially offset by higher international inbound voice service revenues by Php84 million, or 1%, to Php13,922 million in 2013 from Php13,838 million in 2012. The net decrease in international voice service revenues was due to lower outbound traffic and a decrease in inbound termination rates, partially offset by the increase in inbound traffic and the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar. International inbound and outbound calls totaled 3,590 million minutes, an increase of 162 million minutes, or 5%, from 3,428 million minutes in 2012.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php843 million, or 2%, to Php52,258 million in 2013 from Php51,415 million in 2012 primarily due to higher mobile internet and VAS revenues, partially offset by lower text messaging revenues. Cellular data services accounted for 49% and 50% of our cellular service revenues in 2013 and 2012, respectively.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾ (in millions)	Increase (Decrease)	
			Amount	%
Text messaging				
Domestic	Php41,822	Php42,719	(Php897)	(2)
<i>Bucket-Priced/Unlimited</i>	29,411	28,752	659	2
<i>Standard</i>	12,411	13,967	(1,556)	(11)
International	3,519	3,782	(263)	(7)
	45,341	46,501	(1,160)	(2)
Mobile internet ⁽²⁾	4,968	3,121	1,847	59
Value-added services ⁽³⁾	1,786	1,719	67	4
Financial services	163	74	89	120
Total	Php52,258	Php51,415	Php843	2

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽²⁾ Includes revenues from web-based services, net of allocated discounts and content provider costs.

⁽³⁾ 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); and Pasa 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 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).

Text messaging-related services contributed revenues of Php45,341 million in 2013, a decrease of Php1,160 million, or 2%, as compared with Php46,501 million in 2012, and accounted for 87% and 90% of our total cellular data service revenues in 2013 and 2012, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower domestic standard and international messaging revenues, partially offset by higher text messaging revenues from the various bucket-priced/unlimited SMS offers. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php29,411 million in 2013, an increase of Php659 million, or 2%, as compared with Php28,752 million in 2012. Bucket-priced/unlimited text messages increased by 2,400 million to 471,298 million in 2013 from 468,898 million in 2012.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php1,556 million, or 11%, to Php12,411 million in 2013 from Php13,967 million in 2012, mainly due to a decrease in outbound standard SMS revenues primarily as a result of increased preference for bucket and unlimited SMS offers, partly offset by higher inbound revenues due to higher text messages from other carriers. PLDT expects the trend of bucket and unlimited SMS offers to continue in the future. Standard text messages increased by 1,585 million, or 5% to 31,878 million in 2013 from 30,293 million in 2012, as a result of increased domestic inbound SMS volume, partially offset by the decline in domestic outbound standard SMS volume.

International text messaging revenues amounted to Php3,519 million in 2013, a decrease of Php263 million, or 7%, from Php3,782 million in 2012 mainly due to lower outbound international SMS revenues driven by the decline in outbound traffic, partially offset by higher inbound traffic, higher effective dollar yield of international inbound SMS and the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar.

Mobile internet service revenues increased by Php1,847 million, or 59%, to Php4,968 million in 2013 from Php3,121 million in 2012 as a result of higher traffic for mobile internet browsing. Mobile internet service registered 18,092 TB in 2013, an increase of 13,138 TB, or 265%, from 4,954 TB in 2012.

VAS contributed revenues of Php1,786 million in 2013, an increase of Php67 million, or 4%, as compared with Php1,719 million in 2012, primarily due to an increase in revenues from SMS-based VAS revenues, partially offset by lower Pasa Load/Give-a-Load and MMS-based VAS revenues.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2013, our cellular subscribers totaled 70,045,627, an increase of 179,169 over the cellular subscriber base of 69,866,458 as at December 31, 2012. Our cellular prepaid subscriber base increased by 56,213 to 67,667,750 as at December 31, 2013 from 67,611,537 as at December 31, 2012, while our cellular postpaid subscriber base also increased by 122,956, or 5%, to 2,377,877 as at December 31, 2013 from 2,254,921 as at December 31, 2012. The increase in subscriber base was primarily due to the growth in *Talk 'N Text* prepaid subscribers by 1,039,964, partially offset by a net decrease in Smart and Sun Cellular subscribers by 246,550 and 614,245, respectively, resulting from lower average activations in 2013. Prepaid subscribers exclude those subscribers whose minimum balance is derived via accumulation from its rewards program. Prepaid subscribers accounted for 97% of our total subscriber base as at December 31, 2013 and 2012.

Our net subscriber activations (reductions) for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012	Increase (Decrease)	
			Amount	%
Prepaid	56,213	5,818,745	(5,762,532)	(99)
<i>Smart</i>	<i>(452,766)</i>	(2,950,068)	2,497,302	(85)
<i>Talk 'N Text</i>	1,039,964	7,977,878	(6,937,914)	(87)
<i>Sun Cellular</i>	<i>(530,985)</i>	790,935	(1,321,920)	(167)
Postpaid	122,956	351,084	(228,128)	(65)
<i>Smart</i>	206,216	132,732	73,484	55
<i>Sun Cellular</i>	<i>(83,260)</i>	218,352	(301,612)	(138)
Total	179,169	6,169,829	(5,990,660)	(97)

Prepaid and postpaid subscribers reflected net activations of 56,213 and 122,956 subscribers, respectively, in 2013, as compared with of 5,818,745 and 351,084, respectively, in 2012.

The following table summarizes our average monthly churn rates for the years ended December 31, 2013 and 2012:

	2013	2012
	(in %)	
Prepaid		
<i>Smart</i>	5.3	6.0
<i>Talk 'N Text</i>	5.0	4.1
<i>Sun Cellular</i>	10.6	11.0
Postpaid		
<i>Smart</i>	2.7	2.6
<i>Sun Cellular</i>	3.2	1.0

For *Smart Prepaid* subscribers, the average monthly churn rate in 2013 and 2012 were 5.3% and 6.0%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.0% and 4.1% in 2013 and 2012, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 10.6% and 11.0% in 2013 and 2012, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 2.7% and 2.6% in 2013 and 2012, respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 3.2% and 1.0% in 2013 and 2012, respectively.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2013 and 2012:

	Gross ⁽¹⁾		Increase (Decrease)		Net ⁽²⁾		Increase (Decrease)	
	2013	2012 ⁽³⁾	Amount	%	2013	2012 ⁽³⁾	Amount	%
Prepaid								
<i>Smart</i>	Php164	Php167	(Php3)	(2)	Php144	Php145	(Php1)	-
<i>Talk 'N Text</i>	96	111	(15)	(14)	85	97	(12)	(12)
<i>Sun Cellular</i>	68	69	(1)	(1)	61	59	2	3
Postpaid								
<i>Smart</i>	1,140	1,268	(128)	(10)	1,127	1,251	(124)	(10)
<i>Sun Cellular</i>	483	394	89	23	480	391	89	23

⁽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.

⁽³⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our average monthly prepaid and postpaid ARPUs per quarter in 2013 and 2012 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⁾	
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	
2012⁽³⁾											
First Quarter	170	148	116	102	68	57	1,292	1,269	390	388	
Second Quarter	164	143	113	100	66	57	1,264	1,237	400	397	
Third Quarter	162	140	107	93	67	58	1,253	1,251	391	388	
Fourth Quarter	170	149	106	93	74	64	1,265	1,248	393	391	

⁽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.

⁽³⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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 services of PLDT Global's subsidiary.

Wireless Broadband

Revenues from our wireless broadband services increased by Php826 million, or 10%, to Php9,432 million in 2013 from Php8,606 million in 2012, primarily due to an increase in prepaid revenues by Php356 million, or 14%, to Php2,823 million in 2013 from Php2,467 million in 2012, and increase in postpaid revenues by Php470 million, or 8%, to Php6,609 million in 2013 from Php6,139 million in 2012.

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

	2013	2012	Increase (Decrease)	
			Amount	%
Wireless Broadband Revenues	Php9,432	Php8,606	Php826	10
Prepaid	2,823	2,467	356	14
Postpaid	6,609	6,139	470	8
Wireless Broadband Subscribers	2,453,826	2,359,024	94,802	4
Prepaid	1,669,618	1,587,160	82,458	5
Smart	1,359,862	1,231,092	128,770	10
Sun	309,756	356,068	(46,312)	(13)
Postpaid	784,208	771,864	12,344	2
Smart	549,347	495,802	53,545	11
Sun	234,861	276,062	(41,201)	(15)

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 2,453,826 subscribers as at December 31, 2013, a net increase of 94,802 subscribers, or 4%, as compared with 2,359,024 subscribers as at December 31, 2012, primarily due to an increase by 182,315, or 11%, in Smart Broadband subscribers, partially offset by a decrease in Sun Broadband subscribers by 87,513, or 14%, as at December 31, 2013. Our prepaid wireless broadband subscriber base increased by 82,458 subscribers, or 5%, to 1,669,618 subscribers as at December 31, 2013 from 1,587,160 subscribers as at December 31, 2012, while our postpaid wireless broadband subscriber base increased by 12,344 subscribers, or 2%, to 784,208 subscribers as at December 31, 2013 from 771,864 subscribers as at December 31, 2012.

Smart Broadband offers myBro, a fixed wireless broadband service being offered under PLDT's Home megabrand. myBro fixed wireless broadband service is powered either via a link to Smart's wireless broadband-enabled base stations which allows subscribers to connect to the internet using an outdoor aerial antenna installed in the subscriber's home or via Smart's WiMAX network. myBro revenues increased by Php332 million, or 8%, to Php4,314 million in 2013 from Php3,982 million in 2012 primarily due to an increase in subscriber base by 8,858, or 2%, to 436,094 as at December 31, 2013 from 427,236 as at December 31, 2012.

Smart Broadband also offers mobile internet access through *SmartBro Plug-It*, a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity at varying speeds in places where there is Smart network coverage provided by either 3G high speed packet access (HSPA), 4G HSPA+ or Long Term Evolution, or LTE, technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. Smart Broadband also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. *SmartBro LTE* offers the latest broadband technology with speeds of up to 42 Mbps. *SmartBro LTE Plug-It* and *SmartBro LTE Pocket Wifi* are also available in both postpaid and prepaid variants. We also have an additional array of load packages that offer time period-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

DMPI's *Sun Broadband Wireless* is an affordable high-speed broadband wireless 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 Php197 million, or 13%, to Php1,372 million in 2013 from Php1,569 million in 2012, primarily due to a decrease in the number of ACeS Philippines' subscribers and lower revenue contribution from MVNO services of PLDT Global, partially offset by the effect of higher weighted average exchange rate of Php42.44 for the year ended December 31, 2013 from Php42.24 for the year ended December 31, 2012 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. Our wireless non-service revenues increased by Php491 million, or 23%, to Php2,644 million in 2013 from Php2,153 million in 2012, primarily due to increased availments for broadband *Pocket WiFi* and cellular retention packages, partly offset by lower quantity of broadband *Plug-It* modem and cellular handsets/SIM-packs issued for activation.

Expenses

Expenses associated with our wireless business amounted to Php84,674 million in 2013, an increase of Php957 million, or 1%, from Php83,717 million in 2012. A significant portion of this increase was attributable to higher expenses related to cost of sales, professional and other contracted services, rent, communication, training and travel, compensation and employee benefits, and insurance and security services, partially offset by lower depreciation and amortization, interconnection costs and asset impairment. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 71% and 72% in 2013 and 2012, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2013 and 2012 and the percentage of each expense item in relation to the total:

	2013		2012 ⁽¹⁾		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
			(in millions)			
Depreciation and amortization	Php16,358	19	Php19,000	23	(Php2,642)	(14)
Cost of sales	10,182	12	7,373	9	2,809	38
Rent	10,148	12	9,970	12	178	2
Compensation and employee benefits	8,727	11	8,586	10	141	2
Interconnection costs	8,141	10	8,458	10	(317)	(4)
Selling and promotions	7,944	9	7,933	10	11	—
Repairs and maintenance	7,861	9	7,843	9	18	—
Professional and other contracted services	4,290	5	3,733	4	557	15
Asset impairment	3,918	5	4,218	5	(300)	(7)
Taxes and licenses	2,411	3	2,410	3	1	—
Communication, training and travel	1,580	2	1,430	2	150	10
Insurance and security services	1,157	1	1,033	1	124	12
Amortization of intangible assets	1,018	1	921	1	97	11
Other expenses	939	1	809	1	130	16
Total	Php84,674	100	Php83,717	100	Php957	1

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

Depreciation and amortization charges decreased by Php2,642 million, or 14%, to Php16,358 million primarily due to a lower depreciable asset base.

Cost of sales increased by Php2,809 million, or 38%, to Php10,182 million primarily due to increased issuances of handsets to existing postpaid subscribers for cellular retention and higher average cost of handsets/SIM-packs issued for activation purposes, complemented by higher average cost for broadband *Pocket WiFi*, partially offset by lower quantity of handsets/SIM-packs issued for activation and decreased issuances for broadband *Plug-It* modems.

Rent expenses increased by Php178 million, or 2%, to Php10,148 million primarily due to an increase in leased circuit charges and office building rental, partially offset by lower site rental charges. As at December 31, 2013, we had 10,455 cell sites, 20,770 cellular/mobile broadband base stations and 2,915 fixed wireless broadband base stations, of which 10,000 are 4G-capable, as compared with 11,132 cell sites, 20,096 cellular/mobile broadband base stations and 2,871 fixed wireless broadband base stations, of which 7,561 are 4G-capable broadband stations, as at December 31, 2012.

Compensation and employee benefits expenses increased by Php141 million, or 2%, to Php8,727 million primarily due to higher MRP costs as a result of the retroactive adjustment of the application of the Revised PAS 19 of Php537 million in 2013, as well as LTIP costs, partially offset by lower salaries employee benefits, and provision for pension benefits. Employee headcount decreased to 7,680 as at December 31, 2013 as compared with 8,663 as at December 31, 2012, primarily due to the availment of the MRP by DMPI employees as at December 31, 2013.

Interconnection costs decreased by Php317 million, or 4%, to Php8,141 million primarily due to a decrease in interconnection charges on international calls and roaming SMS.

Selling and promotion expenses increased by Php11 million to Php7,944 million primarily due to higher expenses on events, commissions and public relations, partially offset by lower advertising expenses.

Repairs and maintenance expenses increased by Php18 million to Php7,861 million mainly due to higher maintenance costs on IT software and hardware, and cellular and broadband network facilities, partially offset by lower site facilities maintenance and site electricity consumption costs.

Professional and other contracted service fees increased by Php557 million, or 15%, to Php4,290 million primarily due to an increase in outsourced service costs and call center fees, partly offset by lower consultancy and technical service fees.

Asset impairment decreased by Php300 million, or 7%, to Php3,918 million primarily due to lower impairment on certain network equipment of DMPI, partially offset by higher provision for uncollectible receivables.

Taxes and licenses increased by Php1 million to Php2,411 million due to slightly higher business-related taxes.

Communication, training and travel expenses increased by Php150 million, or 10%, to Php1,580 million primarily due to higher expenses related to mailing and courier, as well as freight and hauling, partially offset by lower travel expenses, fuel consumption costs for vehicles and communication charges.

Insurance and security services increased by Php124 million, or 12%, to Php1,157 million primarily due to higher office and site security expenses, partly offset by lower insurance and bond premiums.

Amortization of intangible assets increased by Php97 million, or 11%, to Php1,018 million primarily due to license fees paid for exclusive partnership and use of music catalogues.

Other expenses increased by Php130 million, or 16%, to Php939 million primarily due to higher various business and operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾ (in millions)	Change	
			Amount	%
Other Income (Expenses):				
Interest income	Php324	Php565	(Php241)	(43)
Losses on derivative financial instruments – net	(18)	(51)	33	(65)
Equity share in net losses of associates	(54)	(78)	24	(31)
Foreign exchange gains (losses) – net	(1,814)	2,419	(4,233)	(175)
Financing costs – net	(3,232)	(2,683)	(549)	20
Others	928	721	207	29
Total	(Php3,866)	Php893	(Php4,759)	(533)

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our wireless business' other expenses amounted to Php3,866 million in 2013, a change of Php4,759 million as against other income of Php893 million in 2012, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php1,814 million in 2013 as against net foreign exchange gains of Php2,419 million in 2012 on account of the revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php44.40 as at December 31, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011; (ii) higher net financing costs by Php549 million primarily due to higher amortization of debt discount, lower capitalized interest and an increase in financing charges, partly offset by lower outstanding debt balance and lower weighted average interest rates on loans; (iii) a decrease in interest income by Php241 million mainly due to lower weighted average interest rates and lower principal amounts of dollar and peso placements, partially offset by higher U.S. dollar interest rates, longer average tenor of Philippine peso placements in 2013 and the depreciation of the Philippine peso to the U.S. dollar; (iv) a decrease in equity share in net losses of associates by Php24 million; (v) lower loss on derivative financial instruments by Php33 million mainly on account of lower notional outstanding interest rate swaps not designated as hedges and higher interest rates in 2013; and (vi) an increase in other income by Php207 million mainly due to pension income recognized in 2013, reversal of prior year provision, higher gain on disposal of fixed assets and higher income from consultancy, partly offset by casualty losses due to Typhoon Yolanda.

Provision for Income Tax

Provision for income tax increased by Php768 million, or 9%, to Php8,862 million in 2013 from Php8,094 million in 2012 primarily due to higher taxable income. The effective tax rates for our wireless business were 29% and 24% in 2013 and 2012, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php3,093 million, or 12%, to Php21,921 million in 2013 from Php25,014 million recorded in 2012.

EBITDA

As a result of the foregoing, our wireless business' EBITDA increased by Php223 million to Php54,703 million in 2013 from Php54,480 million in 2012.

Core Income

Our wireless business' core income increased by Php805 million, or 3%, to Php26,499 million in 2013 from Php25,694 million in 2012 on account of an increase in wireless revenues, partially offset by an increase in other expenses and higher wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php537 million in 2013, and an increase in provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php63,567 million in 2013, an increase of Php3,321 million, or 6%, from Php60,246 million in 2012.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2013 and 2012 by service segment:

	2013	%	2012 ⁽¹⁾	%	Increase (Decrease)	
					Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php16,274	26	Php16,470	27	(Php196)	(1)
International long distance	11,422	18	10,789	18	633	6
National long distance	4,583	7	5,046	8	(463)	(9)
Data and other network	27,472	43	25,059	42	2,413	10
Miscellaneous	2,119	3	1,707	3	412	24
	61,870	97	59,071	98	2,799	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,697	3	1,175	2	522	44
Total Fixed Line Revenues	Php63,567	100	Php60,246	100	Php3,321	6

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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 Php2,799 million, or 5%, to Php61,870 million in 2013 from Php59,071 million in 2012 due to an increase in the revenue contribution of our data and other network, international long distance and miscellaneous services, partially offset by decreases in national long distance and local exchange services.

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, 2013 and 2012:

	2013	2012 ⁽¹⁾	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php16,274	Php16,470	(Php196)	(1)
Number of fixed line subscribers	2,069,419	2,063,794	5,625	—
Postpaid	2,009,593	1,997,671	11,922	1
Prepaid	59,826	66,123	(6,297)	(10)
Number of fixed line employees	7,415	7,546	(131)	(2)
Number of fixed line subscribers per employee	279	273	6	2

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Revenues from our local exchange service decreased by Php196 million, or 1%, to Php16,274 million in 2013 from Php16,470 million in 2012, primarily due to lower weighted average billed lines, a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services, partially offset by higher installation and activation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues were 26% and 28% in 2013 and 2012, respectively.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php11,422	Php10,789	Php633	6
Inbound	10,105	9,455	650	7
Outbound	1,317	1,334	(17)	(1)
International call volumes (in million minutes, except call ratio)	2,185	2,150	35	2
Inbound	1,806	1,691	115	7
Outbound	379	459	(80)	(17)
Inbound-outbound call ratio	4.8:1	3.7:1	—	—

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our total international long distance service revenues increased by Php633 million, or 6%, to Php11,422 million in 2013 from Php10,789 million in 2012, primarily due to the net increase in call volumes and the increase in average billing rate in dollar terms, as well as the favorable effect of higher weighted average exchange rate of the Philippine

peso to the U.S. dollar to Php42.44 for the year ended December 31, 2013 from Php42.24 for the year ended December 31, 2012. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% and 18% in 2013 and 2012, respectively.

Our revenues from inbound international long distance service increased by Php650 million, or 7%, to Php10,105 million in 2013 from Php9,455 million in 2012 primarily due to the increase in inbound call volumes and the favorable effect on our inbound revenues of higher weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by the decrease in average settlement rate in dollar terms.

Our revenues from outbound international long distance service decreased by Php17 million, or 1%, to Php1,317 million in 2013 from Php1,334 million in 2012, primarily due to the decrease in call volumes and a decrease in the exchange rate of the U.S. dollar to Philippine peso, partially offset by the increase in the average billing rate in dollar terms.

Our total international long distance service revenues, net of interconnection costs, decreased by Php53 million, or 1%, to Php4,554 million in 2013 from Php4,607 million in 2012. The decrease was primarily due to higher interconnection costs as a result of higher call volumes terminating to domestic carriers, partly offset by an increase in international long distance revenues, gross of interconnection costs.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php4,583	Php5,046	(Php463)	(9)
National long distance call volumes (in million minutes)	852	971	(119)	(12)

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our national long distance service revenues decreased by Php463 million, or 9%, to Php4,583 million in 2013 from Php5,046 million in 2012, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services. The percentage contribution of national long distance revenues to our fixed line service revenues were 7% and 9% in 2013 and 2012, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Ph357 million, or 9%, to Php3,547 million in 2013 from Php3,904 million in 2012, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾	Increase	
			Amount	%
Data and other network service revenues (in millions)	Php27,472	Php25,059	Php2,413	10
Domestic	19,917	18,436	1,481	8
Broadband	12,307	11,246	1,061	9
Leased Lines and Others	7,610	7,190	420	6
International	5,787	5,524	263	5
Leased Lines and Others	5,787	5,524	263	5
Data Centers	1,768	1,099	669	61
Subscriber base				
Broadband	961,967	887,399	74,568	8
SWUP	30,302	22,720	7,582	33

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our data and other network services posted revenues of Php27,472 million in 2013, an increase of Php2,413 million, or 10%, from Php25,059 million in 2012, primarily due to higher revenues from *PLDT DSL*, data centers, higher international data revenues primarily from i-Gate and domestic leased line revenues resulting from the higher revenue

contribution of Metro Ethernet. The percentage contribution of this service segment to our fixed line service revenues was 45% and 42% in 2013 and 2012, respectively.

Domestic

Domestic data services contributed Php19,917 million in 2013, an increase of Php1,481 million, or 8%, as compared with Php18,436 million in 2012 mainly due to higher DSL, Metro Ethernet, Fibr and Diginet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services were 73% and 74% in 2013 and 2012, 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 Php12,307 million in 2013, an increase of Php1,061 million, or 9%, from Php11,246 million in 2012 as a result of the increase in the number of subscribers by 74,568, or 8%, to 961,967 subscribers as at December 31, 2013 from 887,399 subscribers as at December 31, 2012. Broadband revenues accounted for 45% of total data and other network service revenues in each of 2013 and 2012.

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, 2013, *SWUP* had a total subscriber base of 30,302, up by 7,582, or 33%, from 22,720 subscribers in 2012. Leased lines and other data revenues amounted to Php7,610 million in 2013, an increase of Php420 million, or 6%, from Php7,190 million in 2012, primarily due to higher revenues from Metro Ethernet, Diginet and *Shops.Work*, partially offset by lower internet exchange revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 28% and 29% in 2013 and 2012, 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 Php263 million, or 5%, to Php5,787 million in 2013 from Php5,524 million in 2012, primarily due to higher i-Gate revenues and an increase in revenues from various global service providers and IP-VPN local access services, as well as the favorable effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar, partially offset by lower inland-cable lease and Fibernet revenues. The percentage contribution of international data service revenues to total data and other network service revenues were 21% and 22% in 2013 and 2012, respectively.

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. Data center revenues increased by Php669 million, or 61%, to Php1,768 million in 2013 from Php1,099 million in 2012 mainly due to higher co-location and managed services as a result of the consolidation of IPCDSI in October 2012. The percentage contribution of this service segment to our total data and other network service revenues were 6% and 4% in 2013 and 2012, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues increased by Php412 million, or 24%, to Php2,119 million

in 2013 from Php1,707 million in 2012 mainly due to higher outsourcing fees and co-location charges, and the revenue contribution of PGNL, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2013 and 2012.

Non-service Revenues

Non-service revenues increased by Php522 million, or 44%, to Php1,697 million in 2013 from Php1,175 million in 2012, primarily due to higher revenues from *Telpad* units.

Expenses

Expenses related to our fixed line business totaled Php55,975 million in 2013, an increase of Php3,199 million, or 6%, as compared with Php52,776 million in 2012. The increase was primarily due to higher expenses related to repairs and maintenance, depreciation and amortization, interconnection costs, asset impairment, rent, taxes and licenses, cost of sales, and professional and other contracted services, partly offset by lower expenses related to compensation and employee benefits. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 88% in each of 2013 and 2012.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2013 and 2012 and the percentage of each expense item to the total:

	2013		2012 ⁽¹⁾		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
			(in millions)			
Depreciation and amortization	Php13,946	25	Php13,354	25	Php592	4
Compensation and employee benefits	12,671	23	13,439	26	(768)	(6)
Interconnection costs	8,196	15	7,623	15	573	8
Repairs and maintenance	5,930	11	5,325	10	605	11
Professional and other contracted services	3,547	6	3,296	6	251	8
Rent	2,794	5	2,374	5	420	18
Selling and promotions	1,860	3	1,786	3	74	4
Cost of sales	1,665	3	1,374	3	291	21
Asset impairment	1,625	3	1,068	2	557	52
Taxes and licenses	1,514	3	1,097	2	417	38
Communication, training and travel	793	1	752	1	41	5
Insurance and security services	761	1	632	1	129	20
Amortization of intangible assets	2	—	—	—	2	100
Other expenses	671	1	656	1	15	2
Total	Php55,975	100	Php52,776	100	Php3,199	6

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

Depreciation and amortization charges increased by Php592 million, or 4%, to Php13,946 million due to higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php768 million, or 6%, to Php12,671 million primarily due to lower MRP costs, net of the retroactive adjustment of the application of the Revised PAS 19 of Php732 million in 2013, and lower provision for LTIP costs, partially offset by higher provision for pension costs an increase in salaries and employee benefits. Employee headcount decreased to 10,219 in 2013 as compared with 10,462 in 2012 mainly due to a decrease in Digitel's headcount as a result of the MRP.

Interconnection costs increased by Php573 million, or 8%, to Php8,196 million primarily due to higher international long distance interconnection/settlement costs as a result of higher volume of international received paid calls that terminated to other domestic carriers, partially offset by lower settlement costs for national long distance interconnection costs and data and other network services particularly Fibernet and Infonet.

Repairs and maintenance expenses increased by Php605 million, or 11%, to Php5,930 million primarily due to higher repairs and maintenance costs for IT software and hardware, buildings, and other various facilities, partially offset by a decrease in site electricity costs, lower repairs and maintenance costs on central office/telecoms equipment, as well as lower cost of janitorial services.

Professional and other contracted service expenses increased by Php251 million, or 8%, to Php3,547 million primarily due to higher contracted service and bill printing fees, partially offset by lower technical service and consultancy fees.

Rent expenses increased by Php420 million, or 18%, to Php2,794 million primarily due to higher domestic leased circuit charges, and site, pole and building rentals.

Selling and promotion expenses increased by Php74 million, or 4%, to Php1,860 million primarily due to higher commissions and public relations expenses, partially offset by lower advertising costs.

Cost of sales increased by Php291 million, or 21%, to Php1,665 million primarily due to higher sale of *Telpad* units.

Asset impairment increased by Php557 million, or 52%, to Php1,625 million mainly due to higher provision for uncollectible receivables.

Taxes and licenses increased by Php417 million, or 38%, to Php1,514 million as a result of higher municipal licenses and other business-related taxes.

Communication, training and travel expenses increased by Php41 million, or 5%, to Php793 million mainly due to higher local and foreign training and travel, partially offset by a decrease in mailing and courier, and fuel consumption charges.

Insurance and security services increased by Php129 million, or 20%, to Php761 million primarily due to higher expenses on office security services, partially offset by lower insurance and bond premiums.

Amortization of intangible assets amounted to Php2 million in 2013 relating to the amortization of intangible assets related to customer list and licenses in relation to IPCDSI's acquisition.

Other expenses increased by Php15 million, or 2%, to Php671 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 expenses for the years ended December 31, 2013 and 2012:

	2013	2012 ⁽¹⁾ (in millions)	Change	
			Amount	%
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php523	(Php1,958)	Php2,481	127
Interest income	392	713	(321)	(45)
Equity share (losses) in net earnings of associates	(86)	108	(194)	(180)
Foreign exchange gains (losses) – net	(1,503)	863	(2,366)	(274)
Financing costs – net	(3,390)	(4,193)	803	(19)
Others	3,583	2,686	897	33
Total	(Php481)	(Php1,781)	Php1,300	(73)

⁽¹⁾ The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

Our fixed line business' other expenses amounted to Php481 million in 2013, a decrease of Php1,300 million, or 73%, from Php1,781 million in 2012. The decrease was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php523 million in 2013 as against net losses on derivative financial instruments of Php1,958 million in 2012 due to maturity of the 2012 hedges, the depreciation of the Philippine peso and a wider dollar and peso interest rate differentials; (ii) an increase in other income by Php897 million mainly due to the reversal of provision for assessment as a result of a favorable Supreme Court decision, higher gain on sale of Philweb shares and an increase in insurance claims, partially offset by casualty losses on Typhoon Yolanda; (iii) lower financing costs by Php803 million mainly due to lower average interest rates on loans and lower financing charges, partly offset by lower capitalized interest; (iv) equity share in net losses of associates and joint ventures of Php86 million as against equity share in net earnings of associates of Php108 million in 2012 primarily due to the share in net losses of Signal TV for the period from October 1 to December 31, 2013 and disposal of Philweb shares in 2012; (v) a decrease in interest income by Php321 million due to lower principal amounts of dollar and peso placements, lower peso interest rates and shorter average tenor of U.S. dollar placements, partially offset by higher U.S. dollar interest rates, longer average tenor of Philippine peso placements in 2013 and the depreciation of the Philippine peso relative to the U.S. dollar; and (vi) foreign exchange losses of Php1,503 million in 2013 as against foreign exchange gains of Php863 million in 2012 on account of revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php44.40 as at December 31, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011.

Benefit from Income Tax

Benefit from income tax amounted to Php698 million in 2013, an increase of Php647 million from Php51 million in 2012, primarily due to recognition of deferred tax assets, partially offset by higher taxable income. The effective tax rate for our fixed line business was negative 10% and negative 1% in 2013 and 2012, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php7,809 million in 2013, which represents an increase of Php2,069 million, or 36%, as compared with Php5,740 million in 2012.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA increased by Php2,185 million, or 11%, to Php22,274 million in 2013 from Php20,089 million in 2012.

Core Income

Our fixed line business' core income increased by Php3,292 million, or 57%, to Php9,061 million in 2013 from Php5,769 million in 2012, primarily as a result of higher fixed line revenues, a decrease in other expenses and a higher benefit from income tax, partially offset by higher fixed line expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php732 million in 2013.

Others

Expenses

Expenses associated with our other business segment totaled Php5 million in 2013, a decrease of Php13 million, or 72%, as compared with Php18 million in 2012, primarily due to PCEV's lower other operating expenses.

Other Income

The following table summarizes the breakdown of other income for other business segment for the years ended December 31, 2013 and 2012:

	2013	2012	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php2,882	Php1,508	Php1,374	91
Foreign exchange gains – net	424	–	424	100
Interest income	249	76	173	228
Gains on derivative financial instruments – net	6	–	6	100
Others	36	2,774	(2,738)	(99)
Total	Php3,597	Php4,358	(Php761)	(17)

Other income decreased by Php761 million, or 17%, to Php3,597 million in 2013 from Php4,358 million in 2012 primarily due to lower other income by Php2,738 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon in 2012 and lower dividend income by Php720 million, partly offset by an increase in equity share in net earnings of associates by Php1,374 million mainly due to the increase in PCEV's share in the net earnings of Beacon and equity share in the net earnings of Asia Outsourcing Beta Limited, or Beta, a holding company of SPi Technologies, Inc., or SPi, and its subsidiaries, where we reinvested approximately US\$40 million of the proceeds from the sale of our BPO business in 2013.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php3,508 million, a decrease of Php825 million, or 19%, in 2013 from Php4,333 million in 2012.

EBITDA

As a result of the foregoing, negative EBITDA from our other business segment improved by Php13 million, or 72%, to negative Php5 million in 2013 from negative Php18 million in 2012.

Core Income

Our other business segment's core income amounted to Php3,110 million in 2013, a decrease of Php1,314 million, or 30%, as compared with Php4,424 million in 2012 mainly as a result of a lower other income, partially offset by an increase in the equity share in the net earnings of Beacon in 2013.

2012 Compared to 2011

Wireless

Revenues

We generated revenues from our wireless business of Php115,932 million in 2012, an increase of Php12,394 million, or 12%, from Php103,538 million in 2011.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2012 and 2011 by service segment:

	2012 ^(1,2)	%	2011 ^(2,3)	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Cellular	Php103,604	89	Php93,645	90	Php9,959	11
Wireless broadband, and satellite and others						
Wireless broadband	8,606	8	6,804	7	1,802	26
Satellite and others	1,569	1	1,620	2	(51)	(3)
	113,779	98	102,069	99	11,710	11
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	2,153	2	1,469	1	684	47
Total Wireless Revenues	Php115,932	100	Php103,538	100	Php12,394	12

⁽¹⁾ Includes the Digital Group's revenue contribution of Php19,581 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes the Digital Group's revenue contribution of Php3,184 million for the period from October 26, 2011 to December 31, 2011.

Service Revenues

Our wireless service revenues in 2012, increased by Php11,710 million, or 11%, to Php113,779 million as compared with Php102,069 million in 2011, mainly as a result of higher revenues from our cellular and wireless broadband services. The increase in our cellular revenues was mainly due to an increase in DMPI's revenue contribution to our wireless service revenues in 2012, partially offset by the decline in Smart's revenues from international and domestic calls, as well as domestic outbound and inbound text messaging services as a result of increased utilization of unlimited offers, increasing patronage of social networking sites, and the NTC-mandated decrease in SMS interconnection charges. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular ARPUs for 2012 were lower as compared with 2011. As a percentage of our total wireless revenues, service revenues accounted for 98% and 99% in 2012 and 2011, respectively.

Cellular Service

Our cellular service revenues in 2012 amounted to Php103,604 million, an increase of Php9,959 million, or 11%, from Php93,645 million in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in 2012 and 2011, 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 periods 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.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Increase	
			Amount	%
	(in millions)			
Cellular service revenues	Php103,604	Php93,645	Php9,959	11
<i>By service type</i>				
Prepaid	101,042	91,119	9,923	11
Postpaid	84,525	81,649	2,876	4
Postpaid	16,517	9,470	7,047	74
<i>By component</i>				
Voice	101,042	91,119	9,923	11
Data	49,627	43,884	5,743	13
Data	51,415	47,235	4,180	9
<i>Others</i> ⁽⁴⁾	2,562	2,526	36	1

⁽¹⁾ Includes DMPI's cellular service revenues of Php17,241 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes DMPI's cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.

⁽⁴⁾ Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLP services, a small number of leased line contracts, and revenues from Chikka and other Smart subsidiaries.

The following table shows other key measures of our cellular business as at and for the years ended December 31, 2012 and 2011:

	2012	2011	Increase (Decrease)	
			Amount	%
Cellular subscriber base	69,866,458	63,696,629	6,169,829	10
Prepaid	67,611,537	61,792,792	5,818,745	9
Smart	25,061,453	28,011,521	(2,950,068)	(11)
Talk 'N Text	28,445,053	20,467,175	7,977,878	39
Sun Cellular	14,105,031	13,314,096	790,935	6
Postpaid	2,254,921	1,903,837	351,084	18
Sun Cellular	1,571,441	1,353,089	218,352	16
Smart	683,480	550,748	132,732	24
Systemwide traffic volumes (in millions) ^(1, 2)				
Calls (in minutes)	53,025	44,192	8,833	20
Domestic	49,597	41,107	8,490	21
Inbound	1,242	1,350	(108)	(8)
Outbound	48,355	39,757	8,598	22
International	3,428	3,085	343	11
Inbound	3,025	2,862	163	6
Outbound	403	223	180	81
SMS/Data count (in million hits) ^(2, 3)	501,964	353,907	148,057	42
Text messages	500,039	351,502	148,537	42
Domestic	499,191	350,858	148,333	42
Bucket-Priced/Unlimited	468,898	322,588	146,310	45
Standard	30,293	28,270	2,023	7
International	848	644	204	32
Value-Added Services	1,872	2,368	(496)	(21)
Financial Services	53	37	16	43
Mobile internet (in TB)	4,954	965	3,989	413

⁽¹⁾ Includes DMPI's minutes of 15,574 million minutes for the full year 2012 and 2,681 million minutes for the period from October 26, 2011 to December 31, 2011.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes DMPI's SMS count of 61,208 million for the full year 2012 and 9,526 million for the period from October 26, 2011 to December 31, 2011.

Revenues generated from our prepaid cellular services amounted to Php84,525 million in 2012, an increase of Php2,876 million, or 4%, as compared with Php81,649 million in 2011. Prepaid cellular service revenues accounted for 84% and 90% of cellular voice and data revenues in 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php16,517 million in 2012, an increase of Php7,047 million, or 74%, as compared with Php9,470 million earned in 2011, and which accounted for 16% and 10% of cellular voice and data revenues in 2012 and 2011, respectively. The increase in our postpaid cellular service revenues was primarily due to DMPI's higher postpaid cellular service revenue contribution by Php5,804 million and Smart's higher postpaid cellular service revenues by Php1,242 million due to an increase in subscriber base. The increase in revenues from our prepaid cellular services was primarily due to an increase in domestic outbound voice revenues and mobile internet, partially offset by a decline in domestic and international inbound revenues.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php5,743 million, or 13%, to Php49,627 million in 2012 from Php43,884 million in 2011, primarily due to higher cellular domestic call revenues, partially offset by lower cellular international call revenues. Cellular voice services accounted for 48% and 47% of our cellular service revenues in 2012 and 2011, respectively.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Increase (Decrease)	
			Amount	%
	(in millions)			
Voice services:				
<i>Domestic</i>				
Inbound	Php4,737	Php4,963	(Php226)	(5)
Outbound	28,440	22,441	5,999	27
	33,177	27,404	5,773	21
<i>International</i>				
Inbound	13,838	13,906	(68)	–
Outbound	2,612	2,574	38	1
	16,450	16,480	(30)	–
Total	Php49,627	Php43,884	Php5,743	13

⁽¹⁾ Includes DMPi's cellular voice revenues of Php10,676 million of operations for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes DMPi's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011.

Domestic voice service revenues increased by Php5,773 million, or 21%, to Php33,177 million in 2012 from Php27,404 million in 2011, primarily due to an increase in domestic outbound voice service revenues by Php5,999 million, partially offset by lower domestic inbound voice revenues by Php226 million.

Revenues from domestic outbound voice service increased by Php5,999 million, or 27%, to Php28,440 million in 2012 from Php22,441 million in 2011 mainly due to increased traffic on unlimited calls and improved yield on bucket offers. Domestic outbound call volume of 48,355 million minutes increased by 8,598 million minutes, or 22%, from 39,757 million minutes in 2011.

Revenues from our domestic inbound voice service decreased by Php226 million, or 5%, to Php4,737 million in 2012 from Php4,963 million in 2011 primarily due to a decrease in traffic originating from other domestic mobile carriers. Domestic inbound call volumes of 1,242 million minutes in 2012, decreased by 108 million minutes, or 8%, from 1,350 million minutes in 2011 primarily due to lower traffic from fixed line calls.

International voice service revenues decreased by Php30 million to Php16,450 million in 2012 from Php16,480 million in 2011 primarily due to lower international inbound voice service revenues by Php68 million to Php13,838 million in 2012 from Php13,906 million in 2011, partially offset by higher international outbound voice service revenues by Php38 million, or 1%, to Php2,612 million in 2012 from Php2,574 million in 2011. The net decrease in international voice service revenues was due to the unfavorable effect on dollar-linked revenues of lower weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011. International inbound and outbound calls totaled 3,428 million minutes, an increase of 343 million minutes, or 11%, from 3,085 million minutes in 2011.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php4,180 million, or 9%, to Php51,415 million in 2012 from Php47,235 million in 2011 primarily due to higher text messaging revenues and higher mobile internet revenues, partially offset by lower VAS revenues. Cellular data services accounted for 50% of our cellular service revenues in each 2012 and 2011.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2012 and 2011:

	2012 ⁽¹⁾	2011 ⁽¹⁾	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php42,719	Php40,096	Php2,623	7
<i>Bucket-Priced/Unlimited</i>	28,752	23,164	5,588	24
<i>Standard</i>	13,967	16,932	(2,965)	(18)
International	3,782	3,612	170	5
	46,501	43,708	2,793	6
Mobile internet ⁽²⁾	3,121	1,707	1,414	83
Value-added services ⁽³⁾	1,719	1,774	(55)	(3)
Financial services	74	46	28	61
Total	Php51,415	Php47,235	Php4,180	9

⁽¹⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽²⁾ Includes revenues from web-based services, net of allocated discounts and content provider costs.

⁽³⁾ 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); and Pasa 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 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).

Text messaging-related services contributed revenues of Php46,501 million in 2012, an increase of Php2,793 million, or 6%, as compared with Php43,708 million in 2011, and accounted for 90% and 93% of our total cellular data service revenues in 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from an increase in DMPI's text messaging revenue contribution by Php4,432 million, partially offset by lower text messaging revenues from Smart mainly due to the NTC-mandated decrease in SMS interconnection charges. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php28,752 million in 2012, an increase of Php5,588 million, or 24%, as compared with Php23,164 million in 2011. Bucket-priced/unlimited text messages increased by 146,310 million, or 45%, to 468,898 million in 2012 from 322,588 million in 2011.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php2,965 million, or 18%, to Php13,967 million in 2012 from Php16,932 million in 2011, primarily due to increased preference for unlimited SMS offers. Standard text messages increased by 2,023 million, or 7% to 30,293 million in 2012 from 28,270 million in 2011, as a result of increased domestic inbound SMS volume, partially offset by the decline in domestic outbound standard SMS volume.

International text messaging revenues amounted to Php3,782 million in 2012, an increase of Php170 million, or 5%, from Php3,612 million in 2011 mainly due to an increase in DMPI's international text messaging revenue contribution and the growth in Smart's international inbound SMS traffic, partially offset by the unfavorable effect of the appreciation of the peso relative to the U.S. dollar on international inbound text messaging revenues and a lower international outbound SMS traffic.

Mobile internet service revenues increased by Php1,414 million, or 83%, to Php3,121 million in 2012 from Php1,707 million in 2011 as a result of higher traffic for mobile internet browsing. Mobile internet service registered 4,954 TB in 2012, an increase of 3,989 TB, or 413%, from 965 TB in 2011.

VAS contributed revenues of Php1,719 million in 2012, a decrease of Php55 million, or 3%, as compared with Php1,774 million in 2011, primarily due to lower MMS/SMS-based revenues.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2012, our cellular subscribers totaled 69,866,458, an increase of 6,169,829, or 10%, over the cellular subscriber base of 63,696,629 as at December 31, 2011. Our cellular prepaid subscriber base grew by 5,818,745, or 9%, to 67,611,537 as at December 31, 2012 from 61,792,792 as at December 31, 2011, and our cellular postpaid subscriber base increased by 351,084, or 18%, to 2,254,921 as at December 31, 2012 from 1,903,837 as at December 31, 2011. The increase in subscriber base was primarily due to the growth in Smart's *Talk 'N Text* prepaid subscribers and an increase in DMPI's prepaid and postpaid subscribers by 790,935 and 218,352, respectively, as at December 31, 2012. Prepaid subscribers accounted for 97% of our total subscriber base as at December 31, 2012 and 2011.

Our net subscriber activations (reductions) for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011	Increase (Decrease)	
			Amount	%
Prepaid	5,818,745	3,603,022	2,215,723	61
<i>Smart</i>	(2,950,068)	1,764,469	(4,714,537)	(267)
<i>Talk 'N Text</i>	7,977,878	1,499,794	6,478,084	432
<i>Sun Cellular</i>	790,935	338,759	452,176	133
Postpaid	351,084	178,870	172,214	96
<i>Smart</i>	132,732	129,173	3,559	3
<i>Sun Cellular</i>	218,352	49,697	168,655	339
Total	6,169,829	3,781,892	2,387,937	63

Prepaid and postpaid subscribers reflected net activations of 5,818,745 and 351,084 subscribers, respectively, in 2012 as compared with net activations of 3,603,022 and 178,870, respectively, in 2011.

The following table summarizes our average monthly churn rates for the years ended December 31, 2012 and 2011:

	2012	2011
	(in %)	
Prepaid		
<i>Smart</i>	6.0	5.1
<i>Talk 'N Text</i>	4.1	5.5
<i>Sun Cellular</i>	11.0	10.0
Postpaid		
<i>Smart</i>	2.6	2.1
<i>Sun Cellular</i>	1.0	1.0

For *Smart Prepaid* subscribers, the average monthly churn rate in 2012 and 2011 were 6% and 5.1%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 4.1% and 5.5% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 11.0% and 10.0% in 2012 and 2011, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 2.6% and 2.1% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 1.0% in each of 2012 and 2011.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2012 and 2011:

	Gross ^(1, 2)		Decrease		Net ^(2, 3)		Decrease	
	2012	2011	Amount	%	2012	2011	Amount	%
Prepaid								
<i>Smart</i>	Php167	Php190	(Php23)	(12)	Php145	Php166	(Php21)	(13)
<i>Talk 'N Text</i>	111	124	(13)	(10)	97	109	(12)	(11)
<i>Sun Cellular</i>	69	75	(6)	(8)	59	65	(6)	(9)
Postpaid								
<i>Smart</i>	1,268	1,548	(280)	(18)	1,251	1,510	(259)	(17)
<i>Sun Cellular</i>	394	450	(56)	(12)	391	447	(56)	(13)

⁽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⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ 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 in 2012 and 2011 were as follows:

	Prepaid						Postpaid				
	Smart Prepaid		Talk 'N Text		Sun Cellular ⁽¹⁾		Smart		Sun Cellular ⁽¹⁾		
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	
2012 ⁽⁴⁾											
First Quarter	170	148	116	102	68	57	1,292	1,269	390	388	
Second Quarter	164	143	113	100	66	57	1,264	1,237	400	397	
Third Quarter	162	140	107	93	67	58	1,253	1,251	391	388	
Fourth Quarter	170	149	106	93	74	64	1,265	1,248	393	391	
2011 ⁽⁴⁾											
First Quarter	198	174	129	113	-	-	1,610	1,557	-	-	
Second Quarter	196	172	126	111	-	-	1,637	1,575	-	-	
Third Quarter	180	158	117	103	-	-	1,493	1,429	-	-	
Fourth Quarter	185	159	124	109	-	-	1,451	1,480	-	-	

⁽¹⁾ Sun Cellular brand and its subscribers were acquired by PLDT upon acquisition of a controlling interest in Digital on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of Digital.

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

⁽³⁾ Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

⁽⁴⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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 services of PLDT Global's subsidiary.

Wireless Broadband

Revenues from our wireless broadband services increased by Php1,802 million, or 26%, to Php8,606 million in 2012 from Php6,804 million in 2011, primarily due to a 14% growth in broadband subscriber base.

The following table shows information of our wireless broadband subscriber base as at December 31, 2012 and 2011:

	2012	2011	Increase	
			Amount	%
Wireless Broadband Revenues (in millions)	Php8,606	Php6,804	Php1,802	26
Prepaid	2,467	1,911	556	29
Postpaid	6,139	4,893	1,246	25
Wireless Broadband Subscribers	2,359,024	2,068,409	290,615	14
Prepaid	1,587,160	1,362,992	224,168	16
Smart Broadband	1,231,092	1,162,020	69,072	6
Sun Broadband	356,068	200,972	155,096	77
Postpaid	771,864	705,417	66,447	9
Smart Broadband	495,802	454,333	41,469	9
Sun Broadband	276,062	251,084	24,978	10

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 2,359,024 subscribers as at December 31, 2012, an increase of 290,615 subscribers, or 14%, as compared with 2,068,409 subscribers as at December 31, 2011, primarily due to an increase in DMPI's prepaid and postpaid broadband subscribers by 155,096 and 24,978, respectively, and an increase by 110,541, or 7%, in SBI's broadband subscribers as at December 31, 2012. Our prepaid wireless broadband subscriber base increased by 224,168 subscribers, or 16%, to 1,587,160 subscribers as at December 31, 2012 from 1,362,992 subscribers as at December 31, 2011, while our postpaid wireless broadband subscriber base increased by 66,447 subscribers, or 9%, to 771,864 subscribers as at December 31, 2012 from 705,417 subscribers as at December 31, 2011.

Smart Broadband offers *myBro*, a fixed wireless broadband service being offered under PLDT's *Home* megabrand. *myBro* fixed wireless broadband service is powered either via a link to Smart's wireless broadband-enabled base stations which allows subscribers to connect to the internet using an outdoor aerial antenna installed in the subscriber's home or via Smart's *WiMAX* network.

Smart Broadband also offers mobile internet access through *SmartBro Plug-It*, a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity at varying speeds in places where there is Smart network coverage provided by either 3G HSPA, 4G HSPA+ or LTE technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid

variants. Smart Broadband also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. *SmartBro LTE* offers the latest broadband technology with speeds of up to 42 Mbps. *SmartBro LTE Plug-It* and *SmartBro LTE Pocket Wifi* are also available in both postpaid and prepaid variants. We also have an additional array of load packages that offer time period-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

DMPI's *Sun Broadband Wireless* is an affordable high-speed broadband wireless 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 Php51 million, or 3%, to Php1,569 million in 2012 from Php1,620 million in 2011, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS Philippines' subscribers and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011 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. Our wireless non-service revenues increased by Php684 million, or 47%, to Php2,153 million in 2012 from Php1,469 million in 2011, primarily due to the increase in the combined average retail price and quantity of Smart's cellular handsets/SIM-packs issued for activation, as well as the increase in DMPI's non-service revenue contribution.

Expenses

Expenses associated with our wireless business amounted to Php83,717 million in 2012, an increase of Php12,708 million, or 18%, from Php71,009 million in 2011. A significant portion of this increase was attributable to higher expenses related to depreciation and amortization, compensation and employee benefits, cost of sales, repairs and maintenance, selling and promotions, rent, amortization of intangible assets, professional and other contracted services, partially offset by lower asset impairment, interconnection costs and other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 72% and 69% in 2012 and 2011, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2012 and 2011 and the percentage of each expense item in relation to the total:

	2012 ^(1, 2)		2011 ^(2, 3)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
(in millions)						
Depreciation and amortization	Php19,000	23	Php14,295	20	Php4,705	33
Rent	9,970	12	8,223	12	1,747	21
Compensation and employee benefits	8,586	10	5,248	7	3,338	64
Interconnection costs	8,458	10	9,604	14	(1,146)	(12)
Selling and promotions	7,933	10	6,144	9	1,789	29
Repairs and maintenance	7,843	9	5,643	8	2,200	39
Cost of sales	7,373	9	4,267	6	3,106	73
Asset impairment	4,218	5	9,197	13	(4,979)	(54)
Professional and other contracted services	3,733	4	3,164	5	569	18
Taxes and licenses	2,410	3	2,233	3	177	8
Communication, training and travel	1,430	2	1,022	1	408	40
Insurance and security services	1,033	1	847	1	186	22
Amortization of intangible assets	921	1	108	–	813	753
Other expenses	809	1	1,014	1	(205)	(20)
Total	Php83,717	100	Php71,009	100	Php12,708	18

⁽¹⁾ Includes DMPI's expenses of Php21,485 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽³⁾ Includes DMPI's expenses of Php3,083 million for the period from October 26, 2011 to December 31, 2011.

Depreciation and amortization charges increased by Php4,705 million, or 33%, to Php19,000 million primarily due to the increase in DMPI's depreciation and amortization expense by Php4,319 million and Smart's higher depreciable asset base.

Rent expenses increased by Php1,747 million, or 21%, to Php9,970 million primarily due to the increase in DMPI's rent expense by Php1,715 million, increase in site and office building rental and domestic fiber optic network, or DFON, charges, partially offset by a decrease in leased circuit and satellite rental charges. In the year ended December 31, 2012, we had 11,132 cell sites, 20,096 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations, as compared with 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 2,786 fixed wireless broadband-enabled base stations in 2011.

Compensation and employee benefits expenses increased by Php3,338 million, or 64%, to Php8,586 million primarily due to the increase in DMPI's compensation and employee benefit expense by Php1,677 million, as well as higher MRP costs, LTIP costs, salaries employee benefits and provision for pension benefits. Employee headcount increased to 8,663 as at December 31, 2012 as compared with 8,043 as at December 31, 2011, primarily due to an increase in Smart's and DMPI's headcount by an aggregate of 470 as at December 31, 2012.

Interconnection costs decreased by Php1,146 million, or 12%, to Php8,458 million primarily due to a decrease in interconnection charges on international calls and roaming SMS.

Selling and promotion expenses increased by Php1,789 million, or 29%, to Php7,933 million primarily due to the increase in DMPI's selling and promotions expense by Php1,296 million and higher spending on advertising and promotional campaigns, public relations and commissions.

Repairs and maintenance expenses increased by Php2,200 million, or 39%, to Php7,843 million mainly due to the increase in DMPI's repairs and maintenance expense by Php2,265 million, higher office and cell site electricity charges, and IT hardware and software costs, partly offset by lower maintenance costs on cellular and broadband network facilities and other work equipment, as well as lower fuel costs.

Cost of sales increased by Php3,106 million, or 73%, to Php7,373 million primarily to the increase in DMPI's cost of sales by Php2,013 million and higher average cost and quantity of handsets and SIM-packs issued for activation purposes, partly offset by lower quantity and average cost of broadband modems sold, as well as lower broadband and cellular retention costs.

Asset impairment decreased by Php4,979 million, or 54%, to Php4,218 million primarily due to impairment charges in 2011 on certain network equipment and facilities as a result of Smart's network modernization program, partially offset by the increase in DMPI's asset impairment by Php3,051 million, higher provision for uncollectible receivables and provision for inventory obsolescence covering slow-moving cellular handsets and broadband modems.

Professional and other contracted service fees increased by Php569 million, or 18%, to Php3,733 million primarily due to the increase in DMPI's professional and other contracted service fees by Php319 million, and the increase in call center, market research, consultancy, contracted service, outsourced service costs and legal fees, partly offset by lower technical service, corporate membership and bill printing fees.

Taxes and licenses increased by Php177 million, or 8%, to Php2,410 million primarily due to the increase in DMPI's taxes and licenses by Php469 million.

Communication, training and travel expenses increased by Php408 million, or 40%, to Php1,430 million primarily due to the increase in DMPI's communication, training and travel expense by Php314 million, partially offset by a decrease in foreign travel, mailing and courier, and fuel consumption charges, partially offset by higher local training and travel.

Insurance and security services increased by Php186 million, or 22%, to Php1,033 million primarily due to higher office security services, and the increase in DMPI's insurance and security expense by Php177 million, partially offset by lower expenses insurance and bond premium.

Amortization of intangible assets increased by Php813 million, or 753%, to Php921 million primarily due to the amortization of intangible assets related to customer list and franchise of DMPI.

Other expenses decreased by Php205 million, or 20%, to Php809 million primarily due to lower various business and operational-related expenses, partially offset by the increase in DMPI's other expense by Php70 million.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php2,419	(Php720)	Php3,139	436
Interest income	565	677	(112)	(17)
Losses on derivative financial instruments – net	(51)	(10)	(41)	410
Equity share in net losses of associates	(78)	(115)	37	(32)
Financing costs – net	(2,683)	(2,744)	61	(2)
Others	721	1,178	(457)	(39)
Total	Php893	(Php1,734)	Php2,627	151

⁽¹⁾ Includes DMPI's other income of Php569 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes DMPI's other expenses – net of Php763 million for the period from October 26, 2011 to December 31, 2011.

Our wireless business' other income amounted to Php893 million in 2012, a change of Php2,627 million as against other expenses of Php1,734 million in 2011, primarily due to the combined effects of the following: (i) net foreign exchange gains of Php2,419 million in 2012 as against net foreign exchange losses of Php720 million in 2011 on account of revaluation of net foreign currency-denominated liabilities due to the appreciation of the Philippine peso to the U.S. dollar to Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011, and the increase in DMPI's gains on revaluation of net dollar-denominated liabilities by Php2,057 million; (ii) lower net financing costs by Php61 million primarily due to increase in capitalized interest and Smart's decrease in interest expense mainly due to a lower average loan balance and interest rate, partly offset by the increase in DMPI's financing costs by Php633 million, and higher accretion on financial liabilities and financing charges; (iii) a decrease in equity share in net losses of associates by Php37 million; (iv) higher net loss on derivative financial instruments by Php41 million in 2012 mainly due to the increase in DMPI's net loss on derivative financial instruments; (v) a decrease in interest income by Php112 million mainly due to lower average short-term investments and lower average interest rates, as well as shorter average tenor of U.S. dollar and peso placements in 2012 and the appreciation of the Philippine peso to the U.S. dollar, partially offset by the increase in DMPI's interest income by Php30 million; and (vi) a decrease in other income by Php457 million mainly due to lower rental and other miscellaneous income, the decrease in DMPI's other income contribution by Php79 million, partially offset by higher net gain on fixed assets disposal and outsourcing income.

Provision for Income Tax

Provision for income tax decreased by Php335 million, or 4%, to Php8,094 million in 2012 from Php8,429 million in 2011 primarily due to the realization of foreign exchange loss on dollar denominated debt and accounts receivable written off, partially offset by the expiration of SBI's tax holiday in July 2011. The effective tax rate for our wireless business was 24% and 27% in 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business' net income increased by Php2,648 million, or 12%, to Php25,014 million in 2012 from Php22,366 million recorded in 2011.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php953 million, or 2%, to Php54,480 million in 2012 from Php55,433 million in 2011.

Core Income

Our wireless business' core income decreased by Php4,209 million, or 14%, to Php25,694 million in 2012 from Php29,903 million in 2011 on account of an increase in wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php537 million in 2012, partially offset by higher wireless revenues, a decrease in other expenses and lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php60,246 million in 2012, an increase of Php1,956 million, or 3%, from Php58,290 million in 2011.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2012 and 2011 by service segment:

	2012 ^(1,2)	%	2011 ^(2,3)	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Local exchange	Php16,470	27	Php15,719	27	Php751	5
International long distance	10,789	18	11,342	19	(553)	(5)
National long distance	5,046	8	5,537	10	(491)	(9)
Data and other network	25,059	42	22,544	39	2,515	11
Miscellaneous	1,707	3	1,954	3	(247)	(13)
	59,071	98	57,096	98	1,975	3
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,175	2	1,194	2	(19)	(2)
Total Fixed Line Revenues	Php60,246	100	Php58,290	100	Php1,956	3

⁽¹⁾ Includes Digitel's service revenues of Php3,190 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes Digitel's service revenues of Php683 million for the period from October 26, 2011 to December 31, 2011.

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 Php1,975 million, or 3%, to Php59,071 million in 2012 from Php57,096 million in 2011 due to an increase in the revenue contribution of our data and other network, and local exchange services, partially offset by decreases in international and national long distance services, as well as miscellaneous services.

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, 2012 and 2011:

	2012 ^(1,2)	2011 ^(2,3)	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php16,470	Php15,719	Php751	5
Number of fixed line subscribers	2,063,794	2,166,295	(102,501)	(5)
Postpaid	1,997,671	2,029,359	(31,688)	(2)
Prepaid	66,123	136,936	(70,813)	(52)
Number of fixed line employees	7,546	9,072	(1,526)	(17)
Number of fixed line subscribers per employee	273	239	34	14

⁽¹⁾ Includes Digitel's local exchange revenue contribution of Php989 million, subscriber base of 206,631 and employee count of 516 as at and for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes Digitel's local exchange revenue contribution of Php178 million, subscriber base of 296,395 and employee count of 1,586 for the period from October 26, 2011 to December 31, 2011.

Revenues from our local exchange service increased by Php751 million, or 5%, to Php16,470 million in 2012 from Php15,719 million in 2011, primarily due to the increase in Digitel's local exchange service revenue contribution by Php811 million and the increase in postpaid wired and *PLP* lines, partially offset by a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues was 28% in each of 2012 and 2011.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php10,789	Php11,342	(Php553)	(5)
Inbound	9,455	10,195	(740)	(7)
Outbound	1,334	1,147	187	16
International call volumes (in million minutes, except call ratio)	2,150	2,029	121	6
Inbound	1,691	1,767	(76)	(4)
Outbound	459	262	197	75
Inbound-outbound call ratio	3.7:1	6.7:1	–	–

⁽¹⁾ Includes Digitel's international long distance service revenue contribution of Php683 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes Digitel's international long distance service revenue contribution of Php234 million for the period from October 26, 2011 to December 31, 2011.

Our total international long distance service revenues decreased by Php553 million, or 5%, to Php10,789 million in 2012 from Php11,342 million in 2011 primarily due to the decrease in PLDT's call volumes, the decrease in average collection and settlement rates in dollar terms, and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, partially offset by increases in Digitel's international long distance service revenue contribution by Php449 million and call volumes by 290 million minutes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% and 20% in 2012 and 2011, respectively.

Our revenues from inbound international long distance service decreased by Php740 million, or 7%, to Php9,455 million in 2012 from Php10,195 million in 2011 primarily due to the decrease in inbound call volumes, as well as the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and the decrease in the average settlement rate in dollar terms, partially offset by an increase in Digitel's inbound international long distance service revenue contribution by Php117 million and inbound call volumes by 13 million minutes.

Our revenues from outbound international long distance service increased by Php187 million, or 16%, to Php1,334 million in 2012 from Php1,147 million in 2011, primarily due to an increase in Digitel's revenue contribution from outbound international long distance service by Php332 million, partially offset by the decrease in PLDT's outbound call volumes, the decrease in the average collection rate in dollar terms and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, resulting in a decrease in the average billing rate to Php42.45 in 2012 from Php43.34 in 2011.

Our total international long distance service revenues, net of interconnection costs, decreased by Php466 million, or 9%, to Php4,607 million in 2012 from Php5,073 million in 2011. The decrease was primarily due to the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar, lower net average settlement and collection rates in dollar terms, and the decrease in inbound call volumes, partly offset by an increase in outbound call volumes.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2012 and 2011:

	2012 ^(1,2)	2011 ^(2,3)	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php5,046	Php5,537	(Php491)	(9)
National long distance call volumes (in million minutes)	971	1,126	(155)	(14)

⁽¹⁾ Includes Digitel's national long distance service revenue contribution of Php279 million and call volume of 39 million minutes for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes Digitel's national long distance service revenue contribution of Php50 million and call volume of 10 million minutes for the period from October 26, 2011 to December 31, 2011.

Our national long distance service revenues decreased by Php491 million, or 9%, to Php5,046 million in 2012 from Php5,537 million in 2011, primarily due to a decrease in call volumes, partially offset by an increase in Digitel's national long distance service revenue contribution by Php229 million and an increase in the average revenue per minute of our national long distance services due to the cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues was 9% and 10% in 2012 and 2011, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Php294 million, or 7%, to Php3,903 million in 2012 from Php4,197 million in 2011, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Increase	
			Amount	%
Data and other network service revenues (in millions)	Php25,059	Php22,544	Php2,515	11
Domestic	18,436	16,404	2,032	12
<i>Broadband</i>	11,246	9,517	1,729	18
<i>Leased Lines and Others</i>	7,190	6,887	303	4
International				
<i>Leased Lines and Others</i>	5,524	5,229	295	6
Data Centers	1,099	911	188	21
Subscriber base				
<i>Broadband</i>	887,399	842,273	45,126	5
<i>SWUP</i>	22,720	20,153	2,567	13

⁽¹⁾ Includes Digitel's data and other network service revenue contribution of Php1,239 million for the full year 2012 and DSL subscribers of 74,921 as at December 31, 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

⁽³⁾ Includes Digitel's data and other network service revenue contribution of Php221 million for the period from October 26, 2011 to December 31, 2011 and DSL subscribers of 99,367 as at December 31, 2011.

Our data and other network services posted revenues of Php25,059 million in 2012, an increase of Php2,515 million, or 11%, from Php22,544 million in 2011, primarily due to higher revenues from *PLDT DSL*, the increase in Digitel's data and other network service revenue contribution by Php1,018 million, an increase in domestic leased line revenues resulting from the higher revenue contribution of internet protocol-virtual private network, or IP-VPN, and Metro Ethernet, and an increase in international data revenues primarily due to higher revenues from i-Gate and inland cable lease. The percentage contribution of this service segment to our fixed line service revenues was 42% and 39% in 2012 and 2011, respectively.

Domestic

Domestic data services contributed Php18,436 million in 2012, an increase of Php2,032 million, or 12%, as compared with Php16,404 million in 2011 mainly due to higher DSL, Fibr and Metro Ethernet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services was 74% and 73% in 2012 and 2011, 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 Php11,246 million in 2012, an increase of Php1,729 million, or 18%, from Php9,517 million in 2011 as a result of the increase in the number of subscribers by 45,126, or 5%, to 887,399 subscribers, including Digitel's DSL subscriber base of 74,921, as at December 31, 2012, from 842,273 subscribers, which includes Digitel's subscriber base of 99,367, as at December 31, 2011. Broadband revenues accounted for 46% and 42% of total data and other network service revenues in 2012 and 2011, 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, 2012, *SWUP* had a total subscriber base of 22,720 up by 2,567, or 13%, from 20,153 subscribers in 2011. Leased lines and other data revenues amounted to Php7,190 million in 2012, an increase of Php303 million, or 4%, from Php6,887 million in 2011, primarily due to higher revenues from IP-VPN, internet exchange, Metro Ethernet and *Shops.Work* revenues, partially offset by lower Diginet revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 29% and 31% in 2012 and 2011, 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 Php295 million, or 6%, to Php5,524 million in 2012 from Php5,229 million in 2011, primarily due to higher i-Gate revenues and an increase in revenues from various global service providers, partially offset by lower Fibernet revenues, and the unfavorable effect of the appreciation 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 22% and 23% in 2012 and 2011, respectively.

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. Data center revenues increased by Php188 million, or 21%, to Php1,099 million in 2012 from Php911 million in 2011 mainly due to higher co-location and managed services as a result of the consolidation of IPCDSI in October 2012. The percentage contribution of this service segment to our total data and other network service revenues was 4% in each of 2012 and 2011.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues decreased by Php247 million, or 13%, to Php1,707 million in 2012 from Php1,954 million in 2011 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of ePLDT's 75% interest in Digital Paradise on April 1, 2011 and 57.51% interest in Level Up! on July 11, 2011, partially offset by the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), higher revenue contribution of PGNL, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels, and higher rental and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2012 and 2011.

Non-service Revenues

Non-service revenues decreased by Php19 million, or 2%, to Php1,175 million in 2012 from Php1,194 million in 2011, primarily due to lower computer-bundled sales and several managed PABX and *OnCall* solutions, partially offset by higher revenues from *Telpad* units.

Expenses

Expenses related to our fixed line business totaled Php52,776 million in 2012, an increase of Php3,602 million, or 7%, as compared with Php49,174 million in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, rent, cost of sales, selling and promotions, depreciation and amortization, and asset impairment, partly offset by lower expenses related to interconnection costs, taxes and licenses, professional and other contracted services, and amortization of intangible assets. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 88% and 84% in 2012 and 2011, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2012 and 2011 and the percentage of each expense item to the total:

	2012 ^(1, 2)		2011 ^(2, 3)		Increase (Decrease)	
		%		%	Amount	%
	(in millions)					
Compensation and employee benefits	Php13,439	26	Php10,177	21	Php3,262	32
Depreciation and amortization	13,354	25	13,244	27	110	1
Interconnection costs	7,623	15	8,099	17	(476)	(6)
Repairs and maintenance	5,325	10	4,992	10	333	7
Professional and other contracted services	3,296	6	3,363	7	(67)	(2)
Rent	2,374	5	2,164	4	210	10
Cost of sales	1,374	3	1,177	2	197	17
Selling and promotions	1,786	3	1,664	3	122	7
Taxes and licenses	1,097	2	1,319	3	(222)	(17)
Asset impairment	1,068	2	1,003	2	65	6
Communication, training and travel	752	1	741	2	11	1
Insurance and security services	632	1	576	1	56	10
Amortization of intangible assets	–	–	9	–	(9)	(100)
Other expenses	656	1	646	1	10	2
Total	Php52,776	100	Php49,174	100	Php3,602	7

⁽¹⁾ Includes Digitel's expenses of Php2,897 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽³⁾ Includes Digitel's expenses of Php715 million for the period from October 26, 2011 to December 31, 2011.

Compensation and employee benefits expenses increased by Php3,262 million, or 32%, to Php13,439 million primarily due to higher MRP costs, net of the retroactive adjustment of the application of the Revised PAS 19 of Php750 million in 2012, salaries and employee benefits, LTIP costs, as well as the increase in Digitel's contribution to compensation and employee benefits expense by Php603 million, partially offset by lower provision for pension costs. Employee headcount decreased to 10,462 in 2012 as compared with 11,409 in 2011 mainly due to a decrease in PLDT's and Digitel's headcounts as a result of the MRP, partially offset by an increase in the number of employee headcount of iPlus.

Depreciation and amortization charges increased by Php110 million, or 1%, to Php13,354 million due to the increase in Digitel's contribution to depreciation and amortization expense by Php435 million, partly offset by PLDT's lower depreciable asset base.

Interconnection costs decreased by Php476 million, or 6%, to Php7,623 million primarily due to due to lower international and national long distance interconnection/settlement costs as a result of lower international received paid and domestic sent paid calls that terminated to other domestic carriers, and lower settlement costs for data and other network services particularly Fibernet and Infonet, partially offset by the increase in Digitel's contribution to interconnection costs by Php294 million.

Repairs and maintenance expenses increased by Php333 million, or 7%, to Php5,325 million primarily due to the increase in Digitel's contribution to repairs and maintenance expense by Php385 million, higher repairs and maintenance costs for buildings, IT software, and office electricity cost, partially offset by lower repairs and maintenance costs on central office/telecoms equipment, site fuel consumption, and vehicles, furnitures and other work equipment.

Professional and other contracted service expenses decreased by Php67 million, or 2%, to Php3,296 million primarily due to lower consultancy and bill printing fees, partially offset by higher contracted service, transfer agents', technical service, collection agency, and other professional fees, as well as the increase in Digitel's contribution to professional and other contracted fees by Php144 million.

Rent expenses increased by Php210 million, or 10%, to Php2,374 million primarily due to the increase in Digitel's contribution to rent expense by Php103 million, as well as higher international leased circuits, and site rental charges, partially offset by lower domestic leased circuit, office building and equipment rental charges.

Cost of sales increased by Php197 million, or 17%, to Php1,374 million primarily due to the increase in Digitel's contribution to cost of sales by Php32 million and an increase in the sale of *Telpad* units, partially offset by lower sales of several managed PABX and *OnCall* solutions, and *PLP* units.

Selling and promotion expenses increased by Php122 million, or 7%, to Php1,786 million primarily due to the increase in Digitel's contribution to selling and promotions expense by Php11 million, as well as higher advertising expenses, partially offset by lower public relations and commissions expense.

Taxes and licenses decreased by Php222 million, or 17%, to Php1,097 million as a result of lower real property taxes and NTC license fees, partly offset by the increase in Digitel's contribution to taxes and license expense by Php39 million.

Asset impairment increased by Php65 million, or 6%, to Php1,068 million mainly due to the increase in Digitel's contribution to asset impairment charge by Php45 million, partially offset by lower provision for uncollectible receivables mainly by Philcom.

Communication, training and travel expenses increased by Php11 million, or 1%, to Php752 million mainly due to higher local training and travel, and the increase in Digitel's contribution to communication, training and travel expense by Php36 million, partially offset by a decrease in foreign travel, mailing and courier, and fuel consumption charges.

Insurance and security services increased by Php56 million, or 10%, to Php632 million primarily higher office security services, and the increase in Digitel's contribution to insurance and security expense by Php43 million, partially offset by lower expenses insurance and bond premiums.

Amortization of intangible assets amounted to Php9 million in 2011 relating to the amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in 2011.

Other expenses increased by Php10 million, or 2%, to Php656 million primarily due to the increase in Digitel's contribution to other expense by Php12 million, partially offset by lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2012 and 2011:

	2012 ^(1, 2)	2011 ^(2, 3)	Change	
			Amount	%
		(in millions)		
Other Expenses:				
Gains (losses) on derivative financial instruments – net	(Php1,958)	Php211	(Php2,169)	1,028
Interest income	713	590	123	21
Equity share in net earnings of associates	108	307	(199)	(65)
Foreign exchange gains (losses) – net	863	(15)	878	5,853
Financing costs – net	(4,193)	(3,710)	(483)	13
Others	2,686	1,651	1,035	63
Total	(Php1,781)	(Php966)	(Php815)	84

⁽¹⁾ Includes Digitel's other income of Php438 million for the full year 2012.

⁽²⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

⁽³⁾ Includes Digitel's other expenses of Php178 million for the period from October 26, 2011 to December 31, 2011.

Our fixed line business' other expenses amounted to Php1,781 million in 2012, increased by Php815 million, or 84%, from Php966 million in 2011. The increase was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php1,958 million in 2012 as against net gains on derivative financial instruments of Php211 million in 2011 due to the effect of narrower dollar and peso interest rate differentials and higher level of appreciation of the Philippine peso to the U.S. dollar; (ii) an increase in net financing costs by Php483 million due to higher interest expense on loans and related items, financing charges and an increase in Digitel's financing costs by Php8 million; (iii) decrease in equity share in net earnings of associates and joint ventures by Php199 million mainly due to the disposal of investment in Philweb; (iv) an increase in interest income by Php123 million due to a higher principal amount of placements and an increase in Digitel's contribution to interest income by Php27 million, partially offset by lower average interest rates, shorter average tenor of placements, and the impact of the appreciation of the Philippine peso on dollar placements; (v) foreign exchange gains of Php863 million in 2012 as against foreign exchange losses of Php15 million in 2011 on account of an increase in Digitel's contribution to foreign exchange gains by Php181 million and on account of foreign exchange revaluation of foreign currency-denominated assets and liabilities due to the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar; and (vi) an increase in other income by Php1,035 million mainly due to the gain on the first and second tranches of disposal of Philweb shares and higher reversal of prior year provisions, partially offset by lower gain on sale of investments, lower gain on disposal of fixed assets and lower income from consultancy.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php51 million in 2012, a change of Php2,354 million, or 102%, as against a provision for income tax of Php2,303 million in 2011, primarily due to lower taxable income. The effective tax rate for our fixed line business was negative 1% in 2012 and 28% in 2011.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,740 million in 2012, decreased by Php107 million, or 2%, as compared with Php5,847 million in 2011.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php2,293 million, or 10%, to Php20,089 million in 2012 from Php22,382 million in 2011.

Core Income

Our fixed line business' core income increased by Php459 million, or 9%, to Php5,769 million in 2012 from Php5,310 million in 2011, primarily as a result of higher fixed line revenues and a benefit from income tax, partially offset by higher fixed line expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php750 million in 2012, and an increase in other expenses.

Others

Expenses

Expenses associated with our other business segment totaled Php18 million in 2012, an increase of Php7 million, or 64%, as compared with Php11 million in 2011, primarily due to PCEV's higher other operating expenses.

Other Income

The following table summarizes the breakdown of other income for other business segment for the years ended December 31, 2012 and 2011:

	2012	2011	Change	
			Amount	%
(in millions)				
Other Income:				
Equity share in net earnings of associates	Php1,508	Php1,843	(Php335)	(18)
Interest income	76	90	(14)	(16)
Others	2,774	65	2,709	4,168
Total	Php4,358	Php1,998	Php2,360	118

Other income increased by Php2,360 million, or 118%, to Php4,358 million in 2012 from Php1,998 million in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php2,709 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon of Php2,012 million and preferred dividends from Beacon of Php720 million; (ii) a decrease in interest income by Php14 million as a result of lower average level of temporary cash investments by our PCEV business; and (iii) a decrease in equity share in net earnings of associates by Php335 million mainly due to the decrease in PCEV's indirect share in the net earnings of Meralco.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php4,333 million, an increase of Php2,348 million, or 118%, in 2012 from Php1,985 million in 2011.

EBITDA

As a result of the foregoing, negative EBITDA from our other business segment increased by negative Php7 million, or 64%, to negative Php18 million in 2012 from negative Php11 million in 2011.

Core Income

Our other business segment's core income amounted to Php4,424 million in 2012, an increase of Php1,963 million, or 80%, as compared with Php2,461 million in 2011 mainly as a result of an increase in other income, partially offset by a decrease in the adjustment in equity share of Meralco.

Plans and Prospects

We are the largest telecommunications company in the Philippines in terms of revenues and subscribers. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to adopt an integrated approach to our customers with the delivery of a superior customer experience. We will reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services.

Our 2014 budget for consolidated capital expenditures is approximately Php32 billion, of which approximately Php17 billion is budgeted to be spent by Smart, approximately Php12 billion is budgeted to be spent by PLDT, approximately Php1 billion is budgeted to be spent by DMPI and the balance represents the budgeted capital spending of our other subsidiaries. Smart's capital spending is currently anticipated to focus on building out its coverage, leveraging the capabilities of its newly modernized network, expanding its transmission network, increasing international bandwidth capacity and expanding its 3G and wireless broadband networks in order to enhance its data transmission capabilities. Smart also contemplates enhancing its network and platforms infrastructure and systems to support solutions deployment, campaign analytics and service delivery to enable customized and targeted services. PLDT's capital spending is currently intended principally to continue the build-out and upgrade of its broadband data and IP infrastructures, its fixed line data services and to maintain its network. DMPI's capital spending is currently anticipated to further expand its mainstream services and integration with the PLDT Group network of its core and transmission network to increase penetration, particularly in provincial areas to achieve greater business benefits from a closely synergized environment. The higher than usual level of capital expenditures stems from the acceleration of our investments in technology, given current market dynamics and our anticipated surge in demand for data. The budget also includes provisions for the further modernization of our networks, adapting to the more voice- and data-centric environment.

Our capital expenditure budget include projects addressing the following objectives:

- (1) Technical Objectives – these include the transformation of service delivery platform of the group in order to realize operating and cost efficiencies, provide greater resilience and redundancy for the network, as well as investments in additional cable systems;
- (2) Commercial Objectives – these include the expansion of capacity and footprint of wired and wireless, as well as new platforms to expand service offerings; and
- (3) IT/Support Systems – these include the upgrade of our IT and support systems.

Given the favorable state of our financial position, we expect to fund incremental capital expenditures from both debt and free cash flow.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2013, 2012 and 2011 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2013 and 2012:

	2013	2012	2011
Cash Flows		(in millions)	
Net cash provided by operating activities	Php73,763	Php80,370	Php79,209
Net cash used in investing activities	21,045	39,058	29,712
Capital expenditures	28,838	36,396	31,207
Net cash used in financing activities	59,813	48,628	40,204
Net increase (decrease) in cash and cash equivalents	(6,391)	(7,761)	9,379
Capitalization		(in millions)	
Interest-bearing financial liabilities:			
Long-term financial liabilities:			
Long-term debt		Php88,924	Php102,811
Obligations under finance lease		6	10
		88,930	102,821
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year		15,166	12,981
Obligations under finance lease maturing within one year		5	8
		15,171	12,989
Total interest-bearing financial liabilities		104,101	115,810
Total equity attributable to equity holders of PLDT ⁽¹⁾		137,147	145,550
		Php241,248	Php261,360
Other Selected Financial Data			
Total assets ⁽¹⁾		Php399,638	Php405,815
Property, plant and equipment – net		192,665	200,078
Cash and cash equivalents		31,905	37,161
Short-term investments		718	574

⁽¹⁾ The December 31, 2012 comparative information was restated to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial statements for further discussion.

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 avilment 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, 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) payment for investments in joint ventures, associates and deposits for PDR subscription of Php5,557 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.

Our consolidated cash and cash equivalents and short-term investments totaled Php37,735 million as at December 31, 2012. Principal sources of consolidated cash and cash equivalents in 2012 were cash flows from operating activities amounting to Php80,370 million, proceeds from avilment of long-term debt and notes payable of Php52,144 million, net proceeds from disposal of investment available for sale of Php3,563 million, proceeds from net assets classified as held-for-sale of Php1,913 million, interest received of Php1,294 million and dividends received of Php784 million. These funds were used principally for: (1) debt principal and interest payments of Php50,068 million and Php5,355 million, respectively; (2) dividend payments of Php36,934 million; (3) capital outlays, including capitalized interest, of Php36,396 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php10,500 million; (5) a trust fund, net of settlement, created for the redemption of preferred shares in the amount of Php5,912 million; (6) net payment of capital expenditures under long-term financing of Php1,471 million; and (7) settlements of derivative financial instruments of Php1,126 million.

Operating Activities

Our consolidated net cash flows from operating activities decreased by Php6,607 million, or 8%, to Php73,763 million in 2013 from Php80,370 million in 2012, primarily due to higher settlement of accounts payable and other various liabilities, and higher pension contributions, partially offset by higher level of collection of receivables.

Our consolidated net cash flows from operating activities increased by Php1,161 million, or 1%, to Php80,370 million in 2012 from Php79,209 million in 2011, primarily due to an increase in the Digitel Group's net cash from operating

activities by Php11,317 million, lower settlement of accounts payable and other various liabilities and lower corporate taxes paid, partially offset by lower operating income and lower collection of receivables.

Cash flows from operating activities of our wireless business decreased by Php3,518 million, or 7%, to Php50,601 million in 2013 from Php54,119 million in 2012, primarily due to higher level of settlement of other current liabilities, higher income taxes paid and lower operating income, partially offset by higher level of collection of outstanding receivables and lower level of settlement of accounts payable. Conversely, cash flows provided by operating activities of our fixed line business increased by Php5,467 million, or 22%, to Php29,869 million in 2013 from Php24,402 million in 2012, primarily due to higher operating income and lower settlement of other noncurrent liabilities, partially offset by lower level of collection of receivables and prepayments, higher level of settlement of other liabilities, higher income taxes paid and higher refund of customers' deposits.

Cash flows provided by operating activities of our BPO business in 2012 amounted to Php1,926 million, an increase of Php13,139 million, or 117%, as against cash flows used in operating activities of Php11,213 million in 2011, primarily due to higher operating income and a lower level of settlement of accounts payable and other liabilities, partially offset by a lower level of collection of outstanding receivables. Conversely, cash flows provided by operating activities of our fixed line business decreased by Php11,073 million, or 31%, to Php24,402 million in 2012 from Php35,475 million in 2011, primarily due to lower operating income, lower collection of receivables and higher contribution to the pension plan, partially offset by lower level of settlement of other current liabilities. Cash flows from operating activities of our wireless business also decreased by Php852 million, or 2%, to Php54,119 million in 2012 from Php54,971 million in 2011, primarily due to lower level of collection of outstanding receivables and higher level of settlement of accounts payable, partially offset by higher operating income, lower level of settlement of other current liabilities and lower corporate taxes paid.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php21,045 million in 2013, a decrease of Php18,013 million, or 46%, from Php39,058 million in 2012, primarily due to the combined effects of the following: (1) proceeds from sale of BPO business, net of cash of deconsolidated subsidiaries, of Php12,075 million; (2) lower payment for investment in joint ventures, associates and deposits for PDR subscription by Php3,285 million, and acquisition of subsidiaries and shares of noncontrolling interest by Php1,646 million; (3) the decrease in capital expenditures by Php7,558 million; (4) lower net proceeds from disposal of investments available for sale of Php3,579 million; (5) net payment for purchase of investment in debt securities of Php2,218 million; (6) increase in notes receivable of Php1,224 million; (7) higher proceeds from sale of Philweb shares by Php385 million; and (7) lower dividends received by Php346 million.

Consolidated net cash flows used in investing activities amounted to Php39,058 million in 2012, an increase of Php9,346 million, or 31%, from Php29,712 million in 2011, primarily due to the combined effects of the following: (1) proceeds from disposal of investments in 2011 of Php15,136 million; (2) higher payment for purchase of investments by Php11,296 million in 2012; (3) the increase in capital expenditures by Php5,189 million; (4) the lower proceeds from disposal of property, plant and equipment of Php324 million; (5) lower net proceeds from maturity of short-term investments by Php91 million; (6) higher net proceeds from disposal of investment available for sale by Php18,741 million in 2012; (7) proceeds from the sale of net assets held for sale of Php1,913 million; (8) payment for contingent consideration arising from business acquisition of Php1,910 million in 2011; and (9) higher dividends received by Php264 million.

Our consolidated capital expenditures, including capitalized interest, in 2013 totaled Php28,838 million, a decrease of Php7,558 million, or 21%, as compared with Php36,396 million in 2012, primarily due to decreases in the Digital Group's and Smart Group's capital spending, partially offset by PLDT's higher capital spending. PLDT's capital spending of Php11,302 million in 2013 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart Group's capital spending of Php16,595 million in 2013 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. DMPI's capital spending of Php500 million in 2013 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures in 2012 totaled Php36,396 million, an increase of Php5,189 million, or 17%, as compared with Php31,207 million in 2011, primarily due to increases in Smart and its subsidiaries' capital spending, and the Digital Group's capital spending, partially offset by the decrease in PLDT's capital spending. Smart and its subsidiaries' capital spending of Php19,152 million in 2012 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. PLDT's capital spending of Php12,269 million in 2012 was principally used to finance

the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Digitel's capital spending of Php3,753 million in 2012 was intended principally to finance the expansion of fixed mobile convergence and integration with the PLDT Group network of its core and transmission network to increase penetration, particularly in provincial areas. The balance represented other subsidiaries' capital spending.

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

Dividends received in 2013 amounted to Php438 million, a decrease of Php346 million, or 44%, as compared with Php784 million in 2012. The dividends received in 2013 were from Beacon and Philweb. Dividends received in 2012 amounted to Php784 million, an increase of Php264 million, or 51%, as compared with Php520 million in 2011. The dividends received in 2012 were mostly from Beacon and Philweb while dividends received in 2011 were mostly from Meralco and Philweb.

Financing Activities

On a consolidated basis, net cash flows used in financing activities amounted to Php59,813 million, an increase of Php11,185 million, or 23% as compared with Php48,628 million in 2012, resulting largely from the combined effects of the following: (1) higher net payments of long-term debt and notes payable by Php6,965 million; (2) lower proceeds from the issuance of long-term debt and notes payable by Php12,346 million; (3) higher cash dividends paid by Php870 million; (4) creation of a Trust Fund for the redemption of preferred shares of Php5,561 million in 2012; (5) net additions to capital expenditures under long-term financing of Php2,339 million; (6) lower settlement of derivative financial instruments of Php673 million; and (7) lower interest payment by Php396 million.

On a consolidated basis, net cash flows used in financing activities amounted to Php48,628 million in 2012, an increase of Php8,424 million, or 21% as compared with Php40,204 million in 2011, resulting largely from the combined effects of the following: (1) increase in repayments of long-term debt and notes payable by Php35,012 million; (2) a trust fund, net of settlement, created for the redemption of preferred shares in the amount of Php5,912 million; (3) higher net settlement of capital expenditures under long-term financing by Php4,351 million; (4) higher settlements of derivative financial instruments by Php494 million; (5) higher proceeds from the issuance of long-term debt and notes payable by Php32,544 million; (6) lower cash dividend payments by Php4,664 million; and (7) higher proceeds from issuance of capital stock by Php225 million.

Debt Financing

Proceeds from availment of long-term debt for the year ended December 31, 2013 amounted to Php39,798 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 Php57,033 million and Php4,959 million, respectively, in 2013.

Our consolidated long-term debt decreased by Php11,702 million, or 10%, to Php104,090 million as at December 31, 2013 from Php115,792 million as at December 31, 2012, primarily due to debt amortizations and prepayments, partially offset by drawings from our term loan facilities and the depreciation of the Philippine peso relative to the U.S. dollar to Php44.40 as at December 31, 2013 from Php41.08 as at December 31, 2012. As at December 31, 2013, the long-term debt levels of PLDT, Smart and Digitel decreased by 1%, 6% and 39% to Php58,584 million, Php35,754 million and Php11,172 million as compared with December 31, 2012.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with the Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amount of US\$300 million, or Php13,319 million, remained outstanding as at December 31, 2013.

On January 28, 2013, Smart signed a US\$35 million term loan facility agreement with China Banking Corporation to finance the equipment and service contracts for the modernization and expansion projects. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amount of US\$31 million, or Php1,398 million, remained outstanding as at December 31, 2013.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 3, 2013, Nordea Bank assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation) guaranteed by Exportkreditnamnden. The loan is comprised of Tranches A1 and

A2 in the amounts of US\$25 million and US\$19 million, respectively, and Tranches B1 and B2 in the amounts of US\$0.9 million and US\$0.7 million, respectively. The facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. The loan was partially drawn on December 19, 2013 for Tranche A1 and B1 in the amounts of US\$18 million and US\$0.9 million, respectively. The aggregate amount of US\$18 million, or Php787 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. The amount of US\$18 million was partially drawn on September 16, 2013 and subsequently, the amount of US\$6 million on November 19, 2013. The amount of US\$23 million, or Php1,030 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement programs of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date, with final installment on May 31, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$72 million, or Php3,197 million, remained outstanding as at December 31, 2013.

On June 19, 2013, Smart issued Php1,376 million fixed rate corporate notes under a Notes Agreement dated June 14, 2013, comprised of Series A five-year notes amounting to Php742 million and Series B ten-year notes amounting to Php634 million. Proceeds from the issuance of these notes were used primarily for debt refinancing of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 19, 2022. The aggregate amount of Php1,345 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility are intended to be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date, with final installment on June 20, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$118 million, or Php5,238 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A notes amounting to Php1,735 million and Series B notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issued price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over nine years with an annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022. The aggregate amount of Php2,034 million remained outstanding as at December 31, 2013.

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate note under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are 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 issue date and the balance upon maturity on July 29, 2019. The amount of Php1,188 million remained outstanding as at December 31, 2013.

On November 13, 2013, PLDT signed a Php2,000 million term loan facility agreement with Bank of the Philippine Islands, or BPI, to finance capital expenditures and/or refinance existing loan obligations. The loan is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on November 22, 2020. The amount of Php1,000 million was partially drawn on November 22, 2013 and remained outstanding as at December 31, 2013. The loan was fully drawn on February 11, 2014.

On November 25, 2013, Smart signed a Php3,000 million term loan facility agreement with Metrobank to refinance existing loan obligations of Smart. The loan is payable over seven years in six annual installments with an amortization rate of 10% of the total amount drawn and the final installment is payable on November 27, 2020. The amount of Php3,000 million was fully drawn on November 29, 2013. The amount of Php2,985 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On December 3, 2013, Smart signed a Php3,000 million term loan facility agreement with BPI to refinance existing loan obligations of Smart. The loan is payable over seven years in six annual installments with an amortization rate of 1% of the total amount drawn and the final installment is payable on December 10, 2020. The amount of Php3,000 million was fully drawn on December 10, 2013. The amount of Php2,985 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On January 29, 2014, Smart signed a Php3,000 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 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.

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 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.

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 Php12,400 million and Php2,600 million bonds due in 2021 and 2024, with a coupon rate of 5.2250% and 5.2813%, respectively.

Approximately Php67,840 million principal amount of our consolidated outstanding long-term debt as at December 31, 2013 is scheduled to mature over the period from 2014 to 2017. Of this amount, Php34,749 million is attributable to PLDT, Php23,667 million to Smart and Php9,424 million to DMPI.

For further details on our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements.

Debt Covenants

Our consolidated debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. However, 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, 2013, we were in compliance with all of our debt covenants.

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

Financing Requirements

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

Consolidated cash dividend payments in 2013 amounted to Php37,804 million as compared with Php36,934 million paid to shareholders in 2012.

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

Earnings	Date			Amount	
	Approved	Record	Payable	Per share	Total Declared
(in millions, except per share amount)					
2012					
Common					
Regular Dividend	August 7, 2012	August 31, 2012	September 28, 2012	60.00	Php12,964
Regular Dividend	March 5, 2013	March 19, 2013	April 18, 2013	60.00	12,963
Special Dividend	March 5, 2013	March 19, 2013	April 18, 2013	52.00	11,235
					37,162
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	December 4, 2012	December 19, 2012	January 15, 2013		2
Charged to Retained Earnings					Php37,213
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 are declared based on total amount paid up.

See *Note 19 – Equity* to the accompanying audited consolidated financial statements for a detailed discussion of our dividend payments.

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating	Outlook
Standard & Poor's Ratings Services, or S&P	Long-term Foreign Issuer Credit ASEAN regional scale	BBB axA Stable Positive
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating Local Currency Issuer Rating	Baa2 Baa2 Stable Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating Long-term Local Currency Issuer Default Rating National Long-term Rating Foreign senior unsecured rating	BBB A- AAA(ph1) BBB Stable Stable Stable
Credit Ratings and Investor Services Philippines, Inc., or CRISP	Issuer rating	AAA Stable

On May 3, 2013, S&P has upgraded our long-term foreign issuer credit rating at "BBB", which was upgraded from "BBB-" on December 24, 2012 with a stable outlook. On the S&P Asean regional scale, PLDT's rating improved to "axA" with a positive outlook from "axA" with a stable outlook.

On October 18, 2013, Fitch affirmed PLDT's long-term foreign and local currency issuer default ratings at "BBB" and "A-", respectively. These ratings are considered "investment grade". Also, our national long-term rating has been affirmed at "AAA(ph1)", as well as our global bonds and senior notes at "BBB". The outlook is stable. The ratings reflect PLDT's market leadership position in the Philippine telecommunications industry across the wireless, fixed line and broadband segments, reinforced by its successful acquisition of Digital in an all-equity deal.

On July 26, 2013, Moody's affirmed PLDT's foreign currency bond rating and local currency issuer rating at "Baa2". Both ratings are considered "investment grade." The outlook in both ratings is stable.

On January 6, 2014, CRISP rated PLDT's inaugural peso retail bonds as "AAA" issuer rating with a "stable" outlook, the highest on the scale. CRISP cited PLDT's dominant market leadership, strong historical financial performance and excellent management and governance as key considerations for providing their rating.

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

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We did not buy back any shares of common stock in 2013.

Market Information

As at April 15, 2014, 10,478 stockholders were Philippine persons and held approximately 46.28% of PLDT's common capital stock. In addition, as at April 15, 2014, there were a total of approximately 44 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 301 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2013 and 2012 and for the first quarter through April 15, 2014 were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2014				
First Quarter	Php2,826.00	Php2,604.00	US\$63.63	US\$56.88
January	2,810.00	2,608.00	61.46	58.00
February	2,734.00	2,604.00	60.51	56.88
March	2,826.00	2,654.00	63.63	59.01
Second Quarter				
April (until April 15, 2014)	2,766.00	2,716.00	62.61	60.54
2013				
First Quarter	3,004.00	2,530.00	74.08	62.11
Second Quarter	3,290.00	2,682.00	78.63	62.30
Third Quarter	3,110.00	2,680.00	71.76	59.04
Fourth Quarter	3,054.00	2,572.00	71.36	58.63
2012				
First Quarter	2,886.00	2,542.00	67.50	58.46
Second Quarter	2,750.00	2,290.00	63.71	52.34
Third Quarter	2,940.00	2,670.00	69.44	62.47
Fourth Quarter	2,794.00	2,480.00	66.30	59.53

Holders

As at April 15, 2014, there were 11,977 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1. PCD Nominee Corporation	Various	36,644,506	Php183,222,530	35.76
	Filipino	40,609,762		
2. J. P. Morgan Asset Holdings (Hong Kong) Ltd.	Chinese	45,185,307	216,496,305	20.04
3. Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	12.05
4. NTT DOCOMO, Inc.	Japanese	22,796,902	113,984,510	10.55
5. Metro Pacific Resources, Inc.	Filipino	21,556,676	107,783,380	9.98
6. NTT Communications Corporation	Japanese	12,633,487	63,167,435	5.85
7. Social Security System, or SSS	Filipino	8,338,379	41,691,895	3.86
8. Pan-Malayan Management & Investment Corporation	Filipino	640,000	3,200,000	0.30
9. Manuel V. Pangilinan	Filipino	244,450	1,222,250	0.11
10. Albert F. &/or Margaret Gretchen V. del Rosario	Filipino	200,004	1,000,020	0.09
11. Alfonso T. Yuchengco	Filipino	118,458	592,290	0.05
12. Edward A. Tortorici &/or Anita R. Tortorici	American	96,874	484,370	0.04
13. Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03
14. James L. Go	Filipino	57,914	289,570	0.03
15. JDC Investment Realty Enterprise, Inc.	Filipino	47,708	238,540	0.02
16. Par Investment & Realty Corporation	Filipino	38,390	191,950	0.02
17. Hare & Company	American	34,811	174,055	0.02
18. Sze Ye Se	Filipino	30,000	150,000	0.01
19. George Verstraete	American	29,744	148,720	0.01
20. Traders Royal Bank	Filipino	29,682	148,410	0.01
		213,541,139	Php1,067,705,695	

Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2011, 2012 and 2013:

Earnings	Date			Amount	
	Approved	Record	Payable	Per share (in pesos)	Total Declared (in millions)
2011	August 2, 2011	August 31, 2011	September 27, 2011	78	Php14,567
2011	March 6, 2012	March 20, 2012	April 20, 2012	63	13,611
2011	March 6, 2012	March 20, 2012	April 20, 2012	48	10,371
				189	38,549
2012	August 7, 2012	August 31, 2012	September 28, 2012	60	12,964
2012	March 5, 2013	March 19, 2013	April 18, 2013	60	12,963
2012	March 5, 2013	March 19, 2013	April 18, 2013	52	11,235
				172	37,162
2013	August 7, 2013	August 30, 2013	September 27, 2013	63	13,611
2013	March 4, 2014	March 18, 2014	April 16, 2014	62	13,395
2013	March 4, 2014	March 18, 2014	April 16, 2014	54	11,667
				179	Php38,673

Our current dividend policy is to pay out 70% of our core earnings per share taking 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 no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends up to the 30% balance of our core earnings or share buybacks. We were able to declare dividend payouts of approximately 100% of our core earnings for the seven consecutive years from 2007 to 2013. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, is not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the

Philippines, PLDT's transfer agent in Manila, Philippines, which acts as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2013 and 2012, see *Note 27 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php20 million and Php342 million as at December 31, 2013 and 2012, 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 27 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

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 2013 and 2012 was 2.9% and 3.1%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

Information on Independent Auditors and Other Related Matters

Independent Auditor's Fees and Services

The following table summarizes the fees paid or accrued for services rendered by our independent auditor for the years ended December 31, 2013 and 2012:

	2013	2012
	(in millions)	
Audit Fees	Php41	Php44
All Other Fees	16	17
Total	Php57	Php61

Audit Fees. This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2013 and 2012.

Tax Fees. We did not have any tax fees for the years ended December 31, 2013 and 2012.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment, certain projects and out-of-pocket and incidental expenses.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors' work, amount of which do not exceed 5% of the agreed-upon engagement fees.

Our Audit Committee pre-approved all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

Changes in and Disagreements with Independent Auditors on Accounting and Financial Disclosure

We have no disagreements with our independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.



AUDIT COMMITTEE REPORT

March 4, 2014

The Board of Directors
Philippine Long Distance Telephone Company

Further to our compliance with applicable corporate governance laws and rules, we confirm for 2013 that:

- Each voting member of the Audit Committee is an independent director as determined by the Board of Directors;
- We had eight regular meetings during the year;
- We have reviewed and approved the retention of the existing Audit Committee Charter until the next review in 2014;
- We have discussed with the PLDT's internal audit group and SGV & Co. the overall scope and plans for their respective audits, and the results of their examinations, their evaluations of the Philippine Long Distance Telephone Company and Subsidiaries', or PLDT Group's, internal controls and the overall quality of the PLDT Group's financial reporting;
- We have reviewed and approved all audit and non-audit services provided by SGV & Co. to the PLDT Group, and the related fees for such services, and concluded that the non-audit fees are not significant to impair their independence;
- We have discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standard, and we have received written disclosures and the letter from SGV & Co. as required by the prevailing applicable Independence Standards (Statement as to Independence) and have discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;
- We have discussed with the PLDT Group's Enterprise Risk Management (ERM) Officer the PLDT Group top risks for 2013 and the ERM assessment results for the Consumer (Individual) Wireless Business, and has received periodic status reports on PLDT Group's ERM activities.
- In the performance of our oversight responsibilities, we have reviewed and discussed the audited financial statements of the PLDT Group as of and for the year ended December 31, 2013 with the PLDT Group's management, which has the primary responsibility for the financial statements, and with SGV & Co., the PLDT Group's independent auditor, who is responsible for expressing an opinion on the conformity of the PLDT Group's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- Based on the reviews and discussions referred to above, in reliance on the PLDT Group's management and SGV & Co. and subject to the limitations of our role, we recommended to the Board of Directors and the Board has approved, the inclusion of the PLDT Group's audited financial statements as of and for the year ended December 31, 2013 in the PLDT Group's Annual Report to the Stockholders and to the Philippine Securities and Exchange Commission (Phil. SEC) on Form 17-A; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, we approved the appointment of SGV & Co. as the PLDT Group's independent auditor.

Respectfully submitted,

Mr. Pedro E. Roxas
Chairman

Chief Justice Artemio V. Panganiban
Member

Mr. Alfred V. Ty
Member




STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

March 4, 2014

We are responsible for the preparation and fair presentation of the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries (the PLDT Group) as at December 31, 2013 and 2012, and January 1, 2012, and for each of the three years in the period ended December 31, 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our Board of Directors reviews our consolidated financial statements before these are approved and submitted to our Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by our Audit Committee has examined our consolidated financial statements as at December 31, 2013 and 2012, and January 1, 2012, and for each of the three years in the period ended December 31, 2013 in accordance with Philippine Standards on Auditing, and in its report to our Stockholders and our Board of Directors dated March 4, 2014, has expressed its opinion on the fairness of presentation upon completion of such examination.


MANUEL V. PANGILINAN

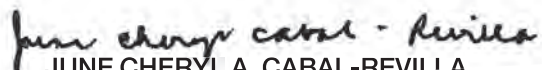
Chairman of the Board


NAPOLEON L. NAZARENO

President and Chief Executive Officer


ANABELLE L. CHUA

Senior Vice President and Treasurer


JUNE CHERYL A. CABAL-REVILLA

First Vice President and Controller

SUBSCRIBED AND SWORN to before me this 1st day of April 2014 affiants exhibiting to me their Passport, as follows:

Name	Passport No.	Date of Expiry	Place of Issue
Manuel V. Pangilinan	EB0160000	April 27, 2015	DFA, Manila
Napoleon L. Nazareno	EB8091848	May 10, 2018	DFA, Manila
Anabelle L. Chua	EB0080269	April 8, 2015	DFA, Manila
June Cheryl A. Cabal-Revilla	EB5029955	March 28, 2017	DFA, Manila



Notary Public
RUBEN V. TEJADA
Notary Public for the City of Makati
Until December 31, 2014
Appointment No. M-76
Roll of Attorneys No. 40957
PTR No. 4234477 January 10, 2014 Makati City
IBP Lifetime No. 02-364 June 9, 2001
9/F MGO Bldg. Legazpi St., Legazpi Village
Makati City, MM

Doc. No. 232;
Page No. 48;
Book No. XX;
Series of 2014.



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company
Ramon Cojuangco Building
Makati Avenue, Makati City

We have audited the accompanying consolidated financial statements of Philippine Long Distance Telephone Company and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and January 1, 2012, and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and its subsidiaries as at December 31, 2013 and 2012, and January 1, 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-3 (Group A),
February 21, 2013, valid until February 20, 2016
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225167, January 2, 2014, Makati City

March 4, 2014



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2013 and 2012, and January 1, 2012
(in million pesos)

	December 31,		January 1,
	2013	2012	2012
		(As Adjusted – Note 2)	
ASSETS			
Noncurrent Assets			
Property, plant and equipment (Notes 3, 5, 9, 12 and 20)	192,665	200,078	200,142
Investments in associates, joint ventures and deposits (Notes 3, 4, 5, 10 and 24)	41,310	27,077	17,865
Available-for-sale financial investments (Notes 6, 10 and 27)	220	5,651	7,181
Investment in debt securities and other long-term investments – net of current portion (Notes 11 and 27)	2,643	205	150
Investment properties (Notes 3, 6, 9 and 12)	1,222	712	1,115
Goodwill and intangible assets (Notes 3, 4, 14 and 21)	73,918	74,250	83,303
Deferred income tax assets – net (Notes 3, 4 and 7)	14,181	7,225	5,117
Derivative financial assets (Note 27)	24	–	–
Prepayments – net of current portion (Notes 3, 5, 18, 24 and 25)	3,031	4,500	11,697
Advances and other noncurrent assets – net of current portion (Note 27)	2,761	1,376	1,340
Total Noncurrent Assets	331,975	321,074	327,910
Current Assets			
Cash and cash equivalents (Notes 15 and 27)	31,905	37,161	46,057
Short-term investments (Note 27)	718	574	558
Trade and other receivables (Notes 3, 5, 16, 24 and 27)	17,564	16,379	16,245
Inventories and supplies (Notes 3, 4, 5 and 17)	3,164	3,467	3,827
Derivative financial assets (Note 27)	10	–	366
Current portion of investment in debt securities and other long-term investments (Notes 11 and 27)	–	150	358
Current portion of prepayments (Note 18)	6,054	5,144	6,345
Current portion of advances and other noncurrent assets (Notes 19, 27 and 28)	8,248	8,116	126
Total Current Assets	67,663	70,991	73,882
Assets classified as held-for-sale (Notes 2, 3, 4 and 10)	–	13,750	–
TOTAL ASSETS	399,638	405,815	401,792
EQUITY AND LIABILITIES			
Equity			
Non-voting serial preferred stock (Notes 8, 19, 27 and 28)	360	360	4,419
Voting preferred stock (Note 19)	150	150	–
Common stock (Notes 8, 19, 27 and 28)	1,093	1,093	1,085
Treasury stock (Notes 8, 19 and 27)	(6,505)	(6,505)	(6,505)
Capital in excess of par value	130,562	130,566	127,246
Retained earnings (Note 19)	22,968	25,416	26,160
Other comprehensive income (Note 6)	(11,481)	(3,387)	1,455
Reserves of a disposal group classified as held-for-sale (Note 2)	–	(2,143)	–
Total Equity Attributable to Equity Holders of PLDT (Note 27)	137,147	145,550	153,860
Noncontrolling interests (Note 6)	179	184	386
TOTAL EQUITY	137,326	145,734	154,246

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at December 31, 2013 and 2012, and January 1, 2012
(in million pesos)

	December 31,		January 1,
	2013	2012	2012
		(As Adjusted – Note 2)	
Noncurrent Liabilities			
Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23 and 27)	88,930	102,821	91,280
Deferred income tax liabilities – net (Notes 3, 4 and 7)	4,437	5,713	7,078
Derivative financial liabilities (Note 27)	1,869	2,802	2,235
Customers' deposits (Note 27)	2,545	2,529	2,272
Pension and other employee benefits (Notes 3, 5 and 25)	13,439	1,982	552
Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 21, 23, 27 and 28)	22,045	21,950	22,642
Total Noncurrent Liabilities	133,265	137,797	126,059
Current Liabilities			
Accounts payable (Notes 22, 24, 26 and 27)	34,882	30,451	29,554
Accrued expenses and other current liabilities (Notes 3, 10, 14, 19, 20, 21, 23, 24, 25, 26, 27 and 28)	74,256	71,624	58,271
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23 and 27)	15,171	12,989	26,009
Provision for claims and assessments (Notes 3 and 26)	897	1,555	1,555
Dividends payable (Notes 19 and 27)	932	827	2,583
Derivative financial liabilities (Note 27)	105	418	924
Income tax payable (Note 7)	2,804	1,809	2,591
	129,047	119,673	121,487
Liabilities directly associated with assets classified as held-for-sale (Notes 2 and 4)	–	2,611	–
Total Current Liabilities	129,047	122,284	121,487
TOTAL LIABILITIES	262,312	260,081	247,546
TOTAL EQUITY AND LIABILITIES	399,638	405,815	401,792

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(in million pesos, except earnings per common share amounts which are in pesos)

	2013	2012	2011
		(As Adjusted – Note 2)	
REVENUES			
Service revenues (Notes 2, 3 and 4)	164,052	159,738	145,834
Non-service revenues (Notes 3, 4 and 5)	4,279	3,295	2,645
	168,331	163,033	148,479
EXPENSES			
Depreciation and amortization (Notes 3, 4 and 9)	30,304	32,354	27,539
Compensation and employee benefits (Notes 3, 5 and 25)	21,369	21,999	15,411
Repairs and maintenance (Notes 12, 17 and 24)	13,107	12,604	10,053
Cost of sales (Notes 5, 17 and 24)	11,806	8,747	5,443
Interconnection costs (Note 2)	10,610	11,105	12,586
Selling and promotions (Note 24)	9,776	9,708	7,807
Professional and other contracted services (Note 24)	6,375	5,361	5,143
Rent (Notes 3, 24 and 27)	6,041	5,860	3,938
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	5,543	5,286	10,200
Taxes and licenses (Note 26)	3,925	3,506	3,554
Communication, training and travel	2,215	2,042	1,645
Insurance and security services (Note 24)	1,815	1,564	1,326
Amortization of intangible assets (Notes 3, 4 and 14)	1,020	921	117
Other expenses	1,609	1,472	1,662
	125,515	122,529	106,424
	42,816	40,504	42,055
OTHER INCOME (EXPENSES)			
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	2,742	1,538	2,035
Interest income (Notes 4, 5, 11 and 15)	932	1,354	1,357
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	511	(2,009)	201
Foreign exchange gains (losses) – net (Notes 4, 9 and 27)	(2,893)	3,282	(735)
Financing costs – net (Notes 4, 5, 9, 20 and 27)	(6,589)	(6,876)	(6,454)
Other income – net (Notes 3, 4, 12 and 18)	4,113	5,813	2,626
	(1,184)	3,102	(970)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS (Note 4)	41,632	43,606	41,085
PROVISION FOR INCOME TAX (Notes 2, 3, 4 and 7)	8,248	8,050	10,734
NET INCOME FROM CONTINUING OPERATIONS (Note 4)	33,384	35,556	30,351
NET INCOME FROM DISCONTINUED OPERATIONS (Notes 2, 4 and 8)	2,069	543	867
NET INCOME (Note 4)	35,453	36,099	31,218
ATTRIBUTABLE TO:			
Equity holders of PLDT (Notes 4 and 8)	35,420	36,148	31,278
Noncontrolling interests (Notes 4 and 8)	33	(49)	(60)
	35,453	36,099	31,218
Earnings Per Share Attributable to Common Equity Holders of PLDT (Notes 4 and 8)			
Basic	163.67	167.07	161.05
Diluted	163.67	167.07	160.91
Earnings Per Share from Continuing Operations Attributable to Common Equity Holders of PLDT (Notes 4 and 8)			
Basic	154.09	164.55	156.52
Diluted	154.09	164.55	156.39

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(in million pesos)

	2013	2012	2011
		(As Adjusted – Note 2)	
NET INCOME (Note 4)	35,453	36,099	31,218
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Foreign currency translation differences of subsidiaries	794	(795)	634
Net gains (losses) on available-for-sale financial investments:	(8)	23	3
Gains (losses) from changes in fair value recognized during the year	(7)	25	3
Income tax related to fair value adjustments charged directly to equity	(1)	(2)	–
Net transactions on cash flow hedges:	(16)	92	14
Net fair value gains (losses) on cash flow hedges (Note 27)	–	92	14
Income tax related to fair value adjustments charged directly to equity	(16)	–	–
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	(92)	–	(10)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	678	(680)	641
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	1,112	–	–
Revaluation increment on investment properties:	(1)	31	–
Income tax related to revaluation increment charged directly to equity	1	32	–
Depreciation of revaluation increment in investment property transferred to property, plant and equipment (Note 9)	(2)	(2)	–
Fair value adjustment of property, plant and equipment transferred to investment properties during the year (Note 12)	–	1	–
Actuarial gains (losses) on defined benefit obligations:	(9,156)	(6,233)	2,099
Remeasurement in actuarial gains (losses) on defined benefit obligations	(13,005)	(8,885)	3,011
Income tax related to remeasurement adjustments	3,849	2,652	(912)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent years	(8,045)	(6,202)	2,099
Total Other Comprehensive Income (Loss) – Net of Tax	(7,367)	(6,882)	2,740
TOTAL COMPREHENSIVE INCOME	28,086	29,217	33,958
ATTRIBUTABLE TO:			
Equity holders of PLDT	28,061	29,268	34,009
Noncontrolling interests	25	(51)	(51)
	28,086	29,217	33,958

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Reserves of a Disposal Group Classified as Held-for-Sale	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2013, as previously presented	510	1,093	(6,505)	130,566	24,794	790	(2,188)	149,060	182	149,242
Effect of changes in accounting policies for employee benefits (Note 2)	-	-	-	-	622	(4,177)	45	(3,510)	2	(3,508)
Balances as at January 1, 2013 (As Adjusted – Note 2)	510	1,093	(6,505)	130,566	25,416	(3,387)	(2,143)	145,550	184	145,734
Total comprehensive income:	-	-	-	-	35,420	(7,359)	-	28,061	25	28,086
Net income (Notes 4 and 8)	-	-	-	-	35,420	-	-	35,420	33	35,453
Other comprehensive loss (Note 6)	-	-	-	-	-	(7,359)	-	(7,359)	(8)	(7,367)
Cash dividends (Note 19)	-	-	-	-	(37,868)	-	-	(37,868)	(46)	(37,914)
Discontinued operations (Notes 2 and 6)	-	-	-	-	-	(735)	2,143	1,408	-	1,408
Acquisition and dilution of noncontrolling interests (Notes 2 and 13)	-	-	-	(4)	-	-	-	(4)	(9)	(13)
Others (Notes 2 and 13)	-	-	-	-	-	-	-	-	25	25
Balances as at December 31, 2013	510	1,093	(6,505)	130,562	22,968	(11,481)	-	137,147	179	137,326
Balances as at January 1, 2012, as previously presented	4,419	1,085	(6,505)	127,246	26,232	(644)	-	151,833	386	152,219
Effect of changes in accounting policies for employee benefits (Note 2)	-	-	-	-	(72)	2,099	-	2,027	-	2,027
Balances as at January 1, 2012 (As Adjusted – Note 2)	4,419	1,085	(6,505)	127,246	26,160	1,455	-	153,860	386	154,246
Total comprehensive income:	-	-	-	-	36,148	(6,880)	-	29,268	(51)	29,217
Net income (Notes 4 and 8)	-	-	-	-	36,148	-	-	36,148	(49)	36,099
Other comprehensive loss (Note 6)	-	-	-	-	-	(6,880)	-	(6,880)	(2)	(6,882)
Cash dividends (Note 19)	-	-	-	-	(36,997)	-	-	(36,997)	(7)	(37,004)
Issuance of capital stock – net of conversion (Note 19)	120	8	-	4,423	-	-	-	4,551	-	4,551
Redemption of preferred shares (Note 19)	(4,029)	-	-	-	-	-	-	(4,029)	-	(4,029)
Revaluation increment removed from other comprehensive income taken to retained earnings (Note 6)	-	-	-	-	105	(105)	-	-	-	-
Discontinued operations (Notes 2 and 6)	-	-	-	-	-	2,143	(2,143)	-	-	-
Acquisition and dilution of noncontrolling interests (Notes 2 and 13)	-	-	-	(1,103)	-	-	-	(1,103)	(144)	(1,247)
Balances as at December 31, 2012 (As Adjusted – Note 2)	510	1,093	(6,505)	130,566	25,416	(3,387)	(2,143)	145,550	184	145,734
Balances as at January 1, 2011, as previously presented	4,419	947	(6,505)	62,890	36,594	(1,276)	-	97,069	316	97,385
Effect of changes in accounting policies for employee benefits (Note 2)	-	-	-	-	347	-	-	347	-	347
Balances as at January 1, 2011 (As Adjusted – Note 2)	4,419	947	(6,505)	62,890	36,941	(1,276)	-	97,416	316	97,732
Total comprehensive income:	-	-	-	-	31,278	2,731	-	34,009	(51)	33,958
Net income (Notes 4 and 8)	-	-	-	-	31,278	-	-	31,278	(60)	31,218
Other comprehensive income (Note 6)	-	-	-	-	-	2,731	-	2,731	9	2,740
Cash dividends (Note 19)	-	-	-	-	(42,059)	-	-	(42,059)	(8)	(42,067)
Issuance of capital stock – net of conversion (Note 19)	-	138	-	64,356	-	-	-	64,494	-	64,494
Others (Notes 2 and 13)	-	-	-	-	-	-	-	-	129	129
Balances as at December 31, 2011 (As Adjusted – Note 2)	4,419	1,085	(6,505)	127,246	26,160	1,455	-	153,860	386	154,246

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(in million pesos)

	2013	2012	2011
		(As Adjusted – Note 2)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and noncontrolling interest from continuing operations	41,632	43,606	41,085
Income before income tax and noncontrolling interest from discontinued operations (Note 2)	2,124	971	985
Income before income tax (Note 4)	43,756	44,577	42,070
Adjustments for:			
Depreciation and amortization (Notes 3, 4 and 9)	30,457	32,820	27,957
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	5,545	5,289	10,209
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)	4,669	5,430	5,312
Foreign exchange losses (gains) – net (Notes 4, 9 and 27)	2,889	(3,243)	744
Incentive plans (Notes 3, 5 and 25)	1,749	1,598	38
Accretion on financial liabilities – net (Notes 5, 20 and 27)	1,541	1,053	1,062
Amortization of intangible assets (Notes 3 and 14)	1,075	1,101	264
Pension benefit costs (Notes 3, 5 and 25)	434	678	569
Losses (gains) on disposal of property, plant and equipment (Note 9)	86	(51)	(172)
Losses (gains) on derivative financial instruments – net (Notes 4 and 27)	(512)	1,981	(197)
Interest income (Notes 4, 5 and 15)	(935)	(1,370)	(1,372)
Gains on disposal of associates (Note 10)	(2,056)	(1,760)	–
Gains on disposal of investments in subsidiaries	(2,404)	–	(216)
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	(2,604)	(1,538)	(2,035)
Gain on disposal of available-for-sale financial investments (Note 10)	–	(2,015)	–
Others	(401)	(1,170)	(1,745)
Operating income before changes in assets and liabilities	83,289	83,380	82,488
Decrease (increase) in:			
Trade and other receivables	(1,790)	(8,338)	2,064
Inventories and supplies	254	386	(1,017)
Prepayments	(663)	97	(539)
Advances and other noncurrent assets	(59)	(108)	51
Increase (decrease) in:			
Accounts payable	4,299	6,140	904
Accrued expenses and other current liabilities	2,615	11,112	7,011
Pension and other employee benefits	(2,611)	(2,245)	(236)
Customers' deposits	17	257	45
Other noncurrent liabilities	(29)	(205)	12
Net cash flows generated from operations	85,322	90,476	90,783
Income taxes paid	(11,559)	(10,106)	(11,574)
Net cash flows from operating activities	73,763	80,370	79,209
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	845	1,294	1,359
Dividends received (Note 10)	438	784	520
Proceeds from:			
Disposal of investments in subsidiaries – net of cash of deconsolidated subsidiaries (Note 2)	12,075	–	218
Disposal of investment in an associate (Note 10)	2,298	1,913	15,136
Disposal of property, plant and equipment (Note 9)	1,546	199	523
Maturity of investment in debt securities	241	380	–
Disposal of available-for-sale financial investments	–	3,567	1
Disposal of investment properties (Note 12)	–	108	1
Cash acquired – net of payment for purchase of investment (Note 13)	–	–	1,928
Maturity of short-term investments	–	–	315

See accompanying Notes to Consolidated Financial Statements.



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(in million pesos)

	2013	2012	2011
		(As Adjusted – Note 2)	
Payments for:			
Purchase of shares of noncontrolling interest (Note 13)	(6)	(841)	–
Acquisition of available-for-sale financial investments (Note 10)	(16)	(4)	(15,179)
Purchase of short-term investments	(114)	(22)	(246)
Acquisition of intangible assets (Note 4)	(290)	–	(2)
Purchase of investment in debt securities	(2,287)	(208)	–
Purchase of investments in associates, joint ventures and deposits (Note 10)	(5,557)	(8,842)	(155)
Purchase of subsidiaries – net of cash acquired	–	(817)	(977)
Contingent consideration arising from business combinations	–	–	(1,910)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27)	(421)	(914)	(648)
Decrease (increase) in notes receivable	(1,224)	–	85
Additions to property, plant and equipment (Notes 4 and 9)	(28,417)	(35,482)	(30,559)
Increase in advances and other noncurrent assets	(156)	(173)	(122)
Net cash flows used in investing activities	(21,045)	(39,058)	(29,712)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 20)	39,798	50,319	17,464
Availments of long-term financing for capital expenditures (Note 21)	868	–	2,880
Notes payable (Note 20)	–	1,825	2,136
Issuance of capital stock	–	227	2
Payments for:			
Redemption of shares	(5)	(62)	–
Obligations under finance leases	(12)	(12)	(33)
Debt issuance costs (Note 20)	(213)	(121)	(42)
Derivative financial instruments (Note 27)	(453)	(1,126)	(632)
Interest – net of capitalized portion (Notes 5, 20 and 27)	(4,959)	(5,355)	(5,325)
Cash dividends (Note 19)	(37,804)	(36,934)	(41,598)
Long-term debt (Note 20)	(57,033)	(45,341)	(14,666)
Redemption of liabilities	–	(289)	–
Long-term financing for capital expenditures	–	(1,471)	–
Trust fund for redemption of shares (Note 19)	–	(5,561)	–
Notes payable (Note 20)	–	(4,727)	(390)
Net cash flows used in financing activities	(59,813)	(48,628)	(40,204)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	704	(445)	86
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,391)	(7,761)	9,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	38,296	46,057	36,678
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	31,905	38,296	46,057
Discontinued operations (Note 2)	–	1,135	–
Continuing operations	31,905	37,161	46,057

See accompanying Notes to Consolidated Financial Statements.



1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTT-C-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2013. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2013. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2013, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, PLDT and BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2013. See *Note 19 – Equity – Voting Preferred Stock* and *Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depository, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depository for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 445 million ADSs outstanding as at December 31, 2013.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the leading telecommunications service provider in the Philippines. Through our three business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2013 and 2012, and January 1, 2012 and for each of the three years in the period ended December 31, 2013, 2012 and 2011 were approved and authorized for issuance by the Board of Directors on March 4, 2014, as reviewed and recommended for approval by the Audit Committee on March 3, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards, or PFRSs. PLDT files a separate financial statements of the Parent Company with the Philippine Securities and Exchange Commission, or Philippine SEC.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, available-for-sale financial investments, certain short-term investments and investment properties that have been measured at fair values.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million, except when otherwise indicated.

Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at December 31, 2013 and 2012, and January 1, 2012:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership						
			December 31,		January 1,				
			2013		2012		2012		
			Direct	Indirect	Direct	Indirect	Direct	Indirect	
Wireless									
Smart:	Philippines	Cellular mobile services	100.0	-	100.0	-	100.0	-	
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	-	100.0	-	100.0	-	100.0	
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	-	100.0	-	100.0	-	100.0	
I-Contacts Corporation	Philippines	Call center services	-	100.0	-	100.0	-	100.0	
Wolfpac Mobile, Inc.	Philippines	Mobile applications development and services	-	100.0	-	100.0	-	100.0	
Wireless Card, Inc.	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards	-	100.0	-	100.0	-	100.0	
Smart e-Money, Inc., or SeMI, (formerly Smarthub, Inc.) ^(a)	Philippines	Software development and sale of maintenance and support services	-	100.0	-	100.0	-	100.0	
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company	-	100.0	-	100.0	-	100.0	
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing	-	100.0	-	100.0	-	100.0	
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	-	100.0	-	100.0	-	100.0	
PH Communications Holdings Corporation	Philippines	Investment company	-	100.0	-	100.0	-	100.0	
Francom Holdings, Inc.:	Philippines	Investment company	-	100.0	-	100.0	-	100.0	
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	-	100.0	-	100.0	-	100.0	
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services	-	100.0	-	100.0	-	100.0	
Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL	China	Mobile applications development and services	-	100.0	-	100.0	-	100.0	
Chikka Pte. Ltd., or CPL	Singapore	Managing patent and trademark portfolio	-	100.0	-	100.0	-	100.0	
Smarthub Pte. Ltd., or SHPL:	Singapore	Investment company	-	100.0	-	100.0	-	100.0	
Takatak Pte. Ltd., or TPL, (formerly SmartConnect Global Pte. Ltd.) ^(b)	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	-	100.0	-	100.0	-	100.0	
3 rd Brand Pte. Ltd., or 3 rd Brand	Singapore	Solutions and systems integration services	-	85.0	-	85.0	-	85.0	
Voyager Innovations, Inc., or Voyager ^(c)	Philippines	Mobile applications development and services	-	100.0	-	-	-	-	
Telesat, Inc. ^(d)	Philippines	Satellite communications services	100.0	-	100.0	-	100.0	-	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	88.5	11.5	88.5	11.5	
Mabuhay Investments Corporation, or MIC, (formerly Mabuhay Satellite Corporation) ^(e)	Philippines	Investment company	67.0	-	67.0	-	67.0	-	
Digital Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digite!)	Philippines	Cellular mobile services	-	99.6	-	99.5	-	70.2	

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership					
			December 31,			January 1,		
			2 0 1 3		2 0 1 2		2 0 1 2	
			Direct	Indirect	Direct	Indirect	Direct	Indirect
Fixed Line								
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	–	100.0	–	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	–	100.0	–	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	100.0	–	100.0	–	100.0	–
Smart-NTT Multimedia, Inc. ^(d)	Philippines	Data and network services	100.0	–	100.0	–	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	–	100.0	–	100.0	–
ePLDT, Inc., or ePLDT ^(f)	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	100.0	–	100.0	–	100.0	–
IP Converge Data Services, Inc., or IPCDSI ^(g)	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	–	100.0	–	100.0	–	–
iPlus Intelligent Network, Inc., or iPlus ^(h)	Philippines	Managed IT outsourcing	–	100.0	–	100.0	–	100.0
Curo Teknika, Inc., or Curo ^(h)	Philippines	Managed IT outsourcing	–	100.0	–	–	–	–
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group ⁽ⁱ⁾	Philippines	Internet-based purchasing, IT consulting and professional services	–	99.2	–	97.1	–	93.5
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0	–	67.0	–	67.0
netGames, Inc., or netGames ^(j)	Philippines	Gaming support services	–	57.5	–	57.5	–	57.5
Digital	Philippines	Telecommunications services	99.6	–	99.5	–	70.2	–
Digital Capital Philippines Ltd., or DCPL ^(k)	British Virgin Islands	Telecommunications services	–	99.6	–	99.5	–	70.2
Digital Information Technology Services, Inc. ^(l)	Philippines	Internet services	–	99.6	–	99.5	–	70.2
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	98.0	–	97.8	–	97.8	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0	–	75.0	–	75.0	–
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	International distributor of Filipino channels and content	60.0	–	60.0	–	60.0	–
Others								
PLDT Global Investments Holdings, Inc., or PGIH, (formerly SPI Global Holdings, Inc.) ^{(m)(n)}	Philippines	Investment company	100.0	–	100.0	–	–	100.0
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	–	100.0	–	–	–	–
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	–	99.8	–	99.8	–	99.5

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

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

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

(d) Ceased commercial operations.

(e) Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC's Articles of Incorporation changing its name from Mabuhay Satellite Corporation to Mabuhay Investments Corporation and its primary purpose from satellite communication to holding company.

(f) On June 11, 2012, MySecureSign, Inc., or MSSS, and ePLDT were merged, wherein ePLDT became the surviving company.

(g) On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.

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

(i) In December 2012 and January 2013, ePLDT acquired an additional 5.7% equity interest in AGS from its minority shareholders, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%.

(j) Ceased commercial operations in January 2013.

(k) Liquidated in January 2013.

(l) Corporate life shortened until June 2013.

(m) On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, which was completed in April 2013. Consequently, as at December 31, 2013, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. See Note 2 Summary of Significant Accounting Policies – Discontinued Operations and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations.

(n) On June 3, 2013, the Philippine SEC approved the change in the business name of SPI Global Holdings, Inc. to PLDT Global Investments Holdings, Inc.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or have rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

PCEV's Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart's tender offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares, or 43.4% of PCEV's noncontrolling shares tendered, thereby increasing Smart's ownership to 99.7% of the outstanding common stock of PCEV at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE for voluntary delisting on March 19, 2012. On April 25, 2012, the PSE approved the petition for voluntary delisting and PCEV's shares were delisted and ceased to be tradable on the PSE effective May 18, 2012.

Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV's Board of Directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the par value of PCEV's common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

	Prior to Amendments			After Amendments		
	Authorized Capital	Number of Shares	Par Value	Authorized Capital	Number of Shares	Par Value
Common Stock	Php12,060,000,000	12,060,000,000	Php1	Php12,060,006,000	574,286	Php21,000
Class I Preferred Stock	240,000,000	120,000,000	2	66,661,000	33,330,500	2
Class II Preferred Stock	500,000,000	500,000,000	1	50,000,000	50,000,000	1
Total Authorized Capital Stock	Php12,800,000,000			Php12,176,667,000		

The decrease in authorized capital and amendments to the articles of incorporation were approved by the Philippine SEC on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendments PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

As a consequence of the foregoing, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 121 as at December 31, 2013 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at December 31, 2013.

Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE must sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE's *Red Mobile* trademark to Smart; (b) the transfer of CURE's existing *Red Mobile* subscriber base to Smart; and (c) the sale of CURE's fixed assets to Smart at net book value.

In a letter dated July 26, 2012, Smart informed the NTC that it has complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

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

As at December 31, 2013, CURE is still waiting for NTC's advice on how to proceed with the planned divestment.

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at December 31, 2013, but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

Corporate Merger of MSSl and ePLDT

In April 2012, the Board of Directors of MSSl and ePLDT approved the plan of merger between MSSl and ePLDT, with ePLDT as the surviving company, in order to realize economies in operation and achieve greater efficiency in the management of their business. The merger was approved by two-thirds vote of MSSl and ePLDT's stockholders on April 13, 2012 and April 27, 2012, respectively. On June 11, 2012, the Philippine SEC approved the plan and articles of merger. The merger has no impact on our consolidated financial statements.

ePLDT's Acquisition of IPCDSl

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSl and advances to IPCDSl for a total adjusted purchase price of Php693 million.

The final purchase price, after the adjustments on retention payable and escrow amount, amounted to Php621 million as at June 30, 2013. The adjusted purchase price amounted to Php734 million as at December 31, 2012. See *Note 13 – Business Combinations – ePLDT's Acquisition of IPCDSl*.

ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012 and January 2013, ePLDT acquired an additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%.

Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. The results of operations of our BPO business for the years ended December 31, 2012 and 2011 were presented as discontinued operations. See Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations.

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, PGIH, to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US\$40 million of the proceeds from the sale in Asia Outsourcing Beta Limited, or Beta, resulting in an approximately 19.7% interest, and will continue to participate in the growth of the business as a partner of CVC. Upon the completion of the sale, PLDT will be subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT’s business); and (2) an obligation, for a period of five years, to provide transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided). In addition, PLDT may be liable for certain damages actually suffered by AOGL arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPI Technologies India Pvt. Ltd., a wholly-owned subsidiary of SPI Technologies, Inc, or SPI.

The results of the BPO segment, net of intercompany transactions, classified as discontinued operations for the four months ended April 30, 2013 (closing period of the sale) and for the years ended December 31, 2012 and 2011 are as follows:

	April 30,	December 31,	
	2013	2012	2011
		(As Adjusted – Note 2)	
		(in million pesos)	
Revenues (Notes 3 and 4)	3,132	9,142	8,124
Expenses:			
Compensation and employee benefits (Notes 3 and 25)	2,047	5,630	5,026
Professional and other contracted services (Note 24)	267	654	525
Depreciation and amortization (Notes 3, 4 and 9)	153	466	418
Repairs and maintenance (Notes 12, 17 and 24)	129	428	338
Communication, training and travel	118	361	301
Rent (Notes 3, 24 and 27)	86	263	224
Amortization of intangible assets (Notes 3 and 14)	55	180	147
Selling and promotions	27	78	40
Insurance and security services (Note 24)	21	63	58
Taxes and licenses (Note 26)	14	43	43
Asset impairment (Notes 3, 4, 9, 10, 16, 17 and 27)	-	3	9
Other expenses (Note 24)	57	110	115
	2,974	8,279	7,244
	158	863	880

	April 30,	December 31,	
	2013	2012	2011
		(As Adjusted – Note 2)	
		(in million pesos)	
Other income (expenses):			
Gains (losses) on derivative financial instruments – net (Note 27)	1	28	(4)
Interest income (Notes 11 and 15)	3	16	15
Financing costs (Notes 9, 20 and 27)	(4)	(24)	(37)
Foreign exchange gains (losses) – net (Notes 9 and 27)	4	(39)	(9)
Other income – net (Note 18)*	1,962	127	140
	1,966	108	105
Income before income tax from discontinued operations	2,124	971	985
Provision for income tax (Notes 2, 3 and 7)	55	428	118
Income after tax from discontinued operations (Note 8)	2,069	543	867
Earnings per share (Note 8):			
Basic – income from discontinued operations	9.58	2.52	4.53
Diluted – income from discontinued operations	9.58	2.52	4.52

* Includes gain on sale of BPO business of Php2,164 million in 2013.

As indicated above, the sale of BPO segment was completed on April 30, 2013. Thus, our consolidated statement of financial position does not include any assets and liabilities of the BPO segment as at December 31, 2013. Below are the major classes of assets and liabilities of BPO segment, net of intercompany transactions, classified as held-for-sale as at December 31, 2012:

	2012
	(As Adjusted – Note 2)
	(in million pesos)
Assets:	
Property, plant and equipment (Notes 3 and 9)	1,529
Available-for-sale financial investments (Notes 6 and 10)	2
Goodwill and intangible assets (Notes 3 and 14)	7,033
Deferred income tax assets – net (Note 7)	212
Prepayments – net of current portion	9
Advances and other noncurrent assets – net of current portion	117
Cash and cash equivalents	1,135
Trade and other receivables (Note 16)	2,704
Derivative financial assets (Note 27)	68
Current portion of prepayments	296
Current portion of advances and other noncurrent assets	7
Assets classified as held-for-sale	13,112
Liabilities:	
Interest-bearing financial liabilities – net of current portion (Note 20)	425
Deferred income tax liabilities – net (Note 7)	147
Pension and other employee benefits (Notes 3 and 25)	221
Accounts payable	481
Accrued expenses and other current liabilities	885
Current portion of interest-bearing financial liabilities (Note 20)	278
Dividends payable	6
Derivative financial liabilities (Note 27)	7
Income tax payable	161
Liabilities directly associated with assets classified as held-for-sale	2,611
Net assets directly associated with disposal group	10,501
Included in other comprehensive income:	
Net transactions on cash flow hedges – net of tax (Note 6)	62
Actuarial gains on defined benefit plans	45
Foreign currency translation differences of subsidiaries (Note 6)	(2,250)
Reserves of a disposal group classified as held-for-sale (Note 6)	(2,143)

The net cash flows generated by the BPO segment for the four months ended April 30, 2013 (closing period of sale) and for the years ended December 31, 2012 and 2011 are as follows:

	April 30,	December 31,	
	2013	2012	2011
		(in million pesos)	
Operating activities	144	1,926	(11,213)
Investing activities	(1,202)	(712)	(3,295)
Financing activities	(10)	(608)	14,272
Net effect of foreign exchange rate changes on cash and cash equivalents	(67)	(45)	11
Net cash inflow (outflow)	(1,135)	561	(225)

PLDT's Acquisition of Subscription Assets of Digitel

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel's subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed. This transaction is eliminated and has no impact on our consolidated financial statements.

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 to acquire 100% ownership in Rack IT for an indicative purchase price of Php170 million subject to certain pre-closing price adjustments. 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. As at the date of this report, Rack IT is still at pre-operating phase and construction of its data center facility which is located in Sucat, Parañaque is still on-going.

Changes in Accounting Policies and Disclosures

Our accounting policies adopted in the preparation of our consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new standards and interpretations effective as at January 1, 2013:

Amendments to PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with Philippine Accounting Standards, or PAS, 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or “similar arrangement”, irrespective of whether they are set-off in accordance with PAS 32. The amendments affect disclosures only and have no impact on our financial position or performance. The additional disclosure required by the amendments is presented in *Note 27 – Financial Assets and Liabilities*.

PFRS 10, Consolidated Financial Statements. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

As a result of the adoption of PFRS 10, we changed our accounting policy with respect to determining whether we have control over and consequently whether we consolidate our investees. PFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if, and only if, we have: (1) the power over the investee, i.e., the investor has existing rights that give it the ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns; (2) the exposure, or rights, to variable returns from its involvement with the investees; and (3) the ability to use its power over the investee to affect the amount of the investor's returns.

In accordance with the transitional provisions of *PFRS 10*, we re-assessed the control conclusion for our investees beginning January 1, 2013 and based on the reassessment there were no additional investees that should be consolidated on the basis of the above circumstances and therefore, the adoption of this revised standard has no impact on our financial position or performance.

PFRS 11, Joint Arrangements. *PFRS 11* superseded *PAS 31, Interests in Joint Ventures*, and *SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. *PFRS 11* removes the option to account for jointly controlled entities, or JCEs, using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

As a result of the adoption of *PFRS 11*, we changed our accounting policy with respect to our interest in joint arrangements.

Under *PFRS 11*, we classified our interest in joint arrangements as either joint operations or joint ventures depending on our rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, we consider the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

We re-evaluated our involvement in our joint arrangements and assessed that its classification as joint ventures is in accordance with *PFRS 11* and therefore, the adoption of this revised standard has no impact on our financial position or performance.

PFRS 12, Disclosure of Interests in Other Entities. *PFRS 12* includes all of the disclosures that were previously in *PAS 27* related to consolidated financial statements, as well as all of the disclosures that were previously included in *PAS 31* and *PAS 28, Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of the revised standard has no significant impact on our consolidated financial statements. See also *Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation* and *Note 10 – Investments in Associates, Joint Ventures and Deposits* for a more comprehensive disclosure about our interest in subsidiaries, associates and joint ventures. The impact of the adoption affects disclosures only.

PFRS 13, Fair Value Measurement. *PFRS 13* establishes a single source of guidance under PFRS for all fair value measurements. *PFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. *PFRS 13* defines fair value as an exit price. As a result of the guidance in *PFRS 13*, we reassessed our policies for measuring fair values, in particular, our valuation inputs such as non-performance risk for fair value measurement of liabilities. *PFRS 13* also requires additional disclosures.

We have assessed that the application of *PFRS 13* has no material impact on our fair value measurements. Additional disclosures required are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in *Note 12 – Investment Properties* and *Note 27 – Financial Assets and Liabilities*.

Revised PAS 19, Employee Benefits. Amendments to *PAS 19* range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

The Revised *PAS 19* requires all actuarial gains and losses under defined benefit plans to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised *PAS 19*, we recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised *PAS 19*, we changed our accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised *PAS 19* replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised *PAS 19* also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised *PAS 19* modified the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The changes in our accounting policies as a result of the adoption of the Revised *PAS 19* have been applied retrospectively.

Consequently, we reviewed our existing employee benefits and determined that the revised standard has significant impact on our accounting for defined benefit retirement plans. We obtained the services of an external actuary to compute the impact on the consolidated financial statements upon adoption of the standard and have increased (decreased) the following accounts in our consolidated statements of financial position as at December 31, 2012 and January 1, 2012 and our consolidated statements of income for the years ended December 31, 2012 and 2011:

	As at December 31, As at January 1,	
	2012	2012
	(in million pesos)	
Increase (decrease) in:		
Consolidated Statements of Financial Position		
Prepaid benefit costs under prepayments – net of current portion	(6,393)	2,828
Accrued benefit costs under pension and other employee benefits	160	(57)
Accrued benefit costs under liabilities directly associated with assets classified as held-for-sale	(18)	–
Assets classified as held-for-sale	(2)	–
Deferred income tax assets – net	1,908	(858)
Other comprehensive income – net of tax	(4,177)	2,099
Reserves of a disposal group classified as held-for-sale	45	–
Retained earnings	(499)	(72)
Noncontrolling interests	2	–
	For the Years Ended December 31,	
	2012	2011
	(in million pesos)	
Increase (decrease) in:		
Consolidated Income Statements		
Net benefit costs under compensation and employee benefits	244	322
Net benefit income under other income – net	(190)	(321)
Income tax expense	(128)	(188)
Income (loss) after tax from discontinued operations	(117)	36
Profit attributable to equity holders of PLDT	(427)	(419)
Noncontrolling interests	4	–

Our adoption of this standard also affected the recognition of termination benefits, wherein certain cost of manpower rightsizing program, or MRP, accrued based on formal detailed plan on December 31, 2012 was reversed and was recognized in 2013 based on the date of actual acceptance of the employees by signing the acceptance letter. This reduced our consolidated deferred income tax assets – net by Php166 million, accrued expenses and other current liabilities by Php1,287 million and increased our retained earnings by Php1,121 million as at December 31, 2012. A total of Php1,269 million of MRP cost was recognized for the year ended December 31, 2013 as a result of this change in the recognition of termination benefits.

As a result of the adoption of *PAS 19*, our consolidated basic and diluted earnings per common share, or EPS, attributable to common equity holders of PLDT increased by Php3.21 for the year ended December 31, 2012 and decreased by Php2.19 for the year ended December 31, 2011.

The Revised *PAS 19* requires additional disclosures for defined benefit plans. These disclosures, among others, include the following: (a) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation.

Philippine Interpretations Committee, or PIC, Q&A No. 2013-03, PAS 19, Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act 7641, or R.A. 7641, The Philippine Retirement Law. This PIC Q&A seeks to provide guidance in accounting for post-employment benefits for an entity which has opted to provide a defined contribution plan as its only post-employment benefit plan despite the minimum retirement benefits required to be provided to employees under R.A. 7641. The benefits mandated under R.A. 7641 are considered as a minimum benefit guarantee for qualified private sector employees in the Philippines. Hence, an entity's obligation for post-employment benefits is not limited to the amount it agrees to contribute to the fund. Therefore, the entity's retirement plan shall be accounted for as a defined benefit plan. The relevant disclosure requirements of PAS 19 for a defined benefit plan should be complied with. In addition, the accounting policy describing the accounting treatment for such a plan should also be disclosed in the notes to consolidated financial statements. The defined contribution liability shall be recognized, and if there is an excess of the projected defined benefit obligation over the projected defined contribution obligation, the entity should apply the projected unit credit method on such excess to determine the additional liability. The PIC Q&A is effective for annual financial statements beginning on or after January 1, 2013 and requires retrospective application.

This PIC Q&A has no significant impact on our financial position or performance except for required disclosures, which were provided for accordingly in our notes to consolidated financial statements.

Revised PAS 27, Separate Financial Statements. As a consequence of the new PFRS 10 and PFRS 12, PAS 27 is now limited to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

This revised standard has no impact on our financial position or performance.

Revised PAS 28, Investments in Associates and Joint Ventures. Superseding PAS 28, *Investments in Associates*, is PAS 28, *Investments in Associates and Joint Ventures*, which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

This revised standard has no impact on our financial position or performance.

Amendments to PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that may not be reclassified at any point in time. The amendment solely affects presentation and therefore has no impact on our financial position or performance.

Improvements to PFRS

The annual improvements to PFRS contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and to be applied retrospectively.

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards. The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply PFRS 1, even if the entity applied PFRS 1 in a previous reporting period; or (b) apply PFRS retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carryforward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with PAS 23, *Borrowing Costs*. The amendment has no impact on our financial position or performance, as we are not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements – Clarification of the Requirements for Comparative Information. The amendment requires an entity to present a: (a) comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period; and (b) opening statement of financial position (known as the “third balance sheet”) when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement will be at the beginning of the preceding period. The amendment has no impact on our financial position or performance.

PAS 16, Property, Plant and Equipment – Classification of Servicing Equipment. The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement has no impact on our financial position or performance.

PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments.

The amendment removes existing income tax requirements from *PAS 32* and requires entities to apply requirements in *PAS 12, Income Taxes*, to any income tax arising from distributions to equity holders. The amendment has no impact on our financial position or performance.

PAS 34, Interim Financial Reporting and Segment Information for Total Assets and Liabilities.

The amendment clarifies the requirements in *PAS 34* relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirement in *PFRS 8, Operating Segments*. The amendment has no impact on our financial position or performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer has the option to measure the components of the noncontrolling interest in the acquiree that are present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *PAS 39, Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of *PAS 39*, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain in the form of negative goodwill is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. At measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies. The existence of significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity. Significant influence is also exemplified when we have: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes transaction costs. The details of our investments in associates are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Associates*.

Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statements: (1) statement of comprehensive income; and (2) statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profits or losses of our associates is shown on the face of our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or have made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Joint Arrangements

Joint arrangements are arrangements of which we have joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation.
- Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, same as investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Joint Ventures*.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Upon loss of joint control and provided that the former joint venture does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SHPL, SGP, 3rd Brand, SMHC, SMI, FECL Group, PLDT Global and its subsidiaries, PGNL, DCPL, PGIH and certain of its subsidiaries, and certain subsidiaries of Chikka and AGS) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of SMHC, SMI, FECL Group, Piltel International Holdings Corporation, or PIHC, PLDT Global and certain of its subsidiaries, PGNL, DCPL, PGIH and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and the functional currency of SHPL, TPL, 3rd Brand, CPL and CITP Singapore Pte. Ltd., or CISP, is the Singapore dollar; the functional currency of CCCBL is the Chinese renminbi; the functional currency of BayanTrade (Malaysia) Sdn Bhd., or BTMS, is the Malaysian ringgit; and the functional currency of PT Columbus IT Indonesia, or PTCL, is the Indonesian rupiah. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Noncurrent Assets Held-for-sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held-for-sale are neither depreciated nor amortized.

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of PAS 39 are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in gains or losses recognized in our consolidated income statement under “Gains (losses) on derivative financial instruments – net” for derivative instruments and “Other income – net” for non-derivative financial assets. Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under “Interest income” and “Other income – net”, respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

Our financial assets at FVPL include portions of short-term investments and short-term currency swap as at December 31, 2013, and portion of short-term investments as at December 31, 2012, and long-term swap portion and portion of short-term investments as at January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include cash and cash equivalents, trade and other receivables, portions of investment in debt securities and other short-term and long-term investments, and portions of advances and other noncurrent assets as at December 31, 2013 and 2012, and January 1, 2012. See *Note 15 – Cash and Cash Equivalents*, *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portion of investment in debt securities and other long-term investments as at December 31, 2013 and 2012, and January 1, 2012. See *Note 11 – Investment in Debt Securities and Other Long-term Investments* and *Note 27 – Financial Assets and Liabilities*.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the "Net gains on available-for-sale financial

investments – net of tax” account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated income statement. Interest earned on holding available-for-sale financial investments are included under “Interest income” using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under “Other income – net” when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management’s intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

For a financial investment reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to the consolidated income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2013 and 2012, and January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under “Gains (losses) on derivative financial instruments – net” for derivative instruments and “Other income – net” for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity’s key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only currency swaps and interest rate swaps as at December 31, 2013 and 2012, and January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities, with the exemption of statutory payables, interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at December 31, 2013 and 2012, and January 1, 2012. See *Note 20 – Interest-bearing Financial Liabilities*, *Note 21 – Deferred Credits and Other Noncurrent Liabilities*, *Note 22 – Accounts Payable*, and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

"Day 1" difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a "Day 1" difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the "Day 1" difference amount.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber.

Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, counterparty's payment history and industry-observed settlement periods.

Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances based on age and payment habits, as applicable.

Collective impairment

Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

Other subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date.

Available-for-sale financial investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investment is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost less any impairment loss on that investment previously recognized in our consolidated income statement and the current fair value. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, short-term currency swaps, forward foreign exchange contracts and interest rate swaps to hedge our risks associated with foreign currency fluctuations and interest rate. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See *Note 27 – Financial Assets and Liabilities*.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the “Gains (losses) on derivative financial instruments – net” in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

We do not have financial instruments designated as fair value hedges as at December 31, 2013 and 2012, and January 1, 2012.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an equity forward contract to hedge the sale of Philweb Corporation, or Philweb, shares. We also use interest rate swaps and forward foreign exchange contracts to hedge our risks associated with fluctuations in interest rates and foreign currency exchange rates, respectively. See *Note 27 – Financial Assets and Liabilities – ePLDT Group*.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

We do not have derivative financial instruments designated as hedges of a net investment in foreign operation as at December 31, 2013 and 2012, and January 1, 2012.

Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the asset if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property, plant and equipment.

Depreciation and amortization commence once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life, and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment and are adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for commercial service.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to our borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of the property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner-occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the carrying amount of the owner-occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

No assets held under operating lease have been classified as investment properties.

Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 14 – Goodwill and Intangible Assets*.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventories and supplies to its present location and condition are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business, less the estimated cost to sell or determining the prevailing replacement costs.

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property, plant and equipment

For property, plant and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to CGUs, or group of CGUs, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as "Interest income" in our consolidated income statement.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

Fair value measurement

We measure financial instruments such as derivatives, available-for-sale financial investments, certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 27 – Financial Assets and Liabilities*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to us.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, we determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

We determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, we analyze the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per our accounting policies. For this analysis, we verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be sold separately or bundled with goods or other services. The specific recognition criteria are as follows:

Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges generated from postpaid cellular voice and data services through the postpaid plans of *Smart* and *Sun Cellular*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognized on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid services include over-the-air reloading channels and prepaid cards provided by *Smart Prepaid*, *Talk 'N Text* and *Sun Cellular Prepaid*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, short messaging services, or SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e. free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Nonrecurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

Connecting carriers

Interconnection revenue for call termination, call transit and network usages is recognized in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

Value-Added Services, or VAS

Revenues from VAS include SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), MMS, content downloading and infotext services. The amount of revenue recognized is net of amount settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers.

Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Multiple-deliverable arrangements

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service is performed.

Service revenues from discontinued operations

Our revenues are principally derived from knowledge processing solutions and customer relationship management services in the business process outsourcing business.

Revenue from outsourcing contracts under our knowledge processing solutions and customer relationship management businesses are recognized when evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable, and collectability is reasonably assured. If the fee is not fixed or determinable, or collectability is not reasonably assured, revenue is not recognized until payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptable period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received. Revenue contingent on meeting specific performance conditions are recognized to the extent of costs incurred to provide the service. Outsourcing contracts may also include incentive payments dependent on achieving performance targets. Revenue relating to such incentive payments is recognized when the performance target is achieved.

Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in the consolidated income statements.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

Dividend income

Revenue is recognized when our right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Retirement Benefits

Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

Defined contribution plans

Smart and certain of its subsidiaries maintains a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees’ monthly salaries. Smart and certain of its subsidiaries, however, are covered under R.A. 7641 otherwise known as “The Philippine Retirement Law”, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641.

Accordingly, Smart and certain of its subsidiaries accounts for its retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. Smart and certain of its subsidiaries determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. Gains or losses on the settlement of the defined benefit plan are recognized when the settlement occurs. See *Note 25 – Employee Benefits – Defined Contribution Plans* for more details.

Other Long-term Employee Benefits

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, and 2012 to 2014 Long-term Incentive Plan, or the revised LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in profit or loss. See *Note 25 – Employee Benefits – Other Long-term Employee Benefits* for more details.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a *Lessor*. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

As a *Lessee*. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) where receivables and payables are stated with the amount of VAT included.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post year-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by PFRSs.

New Accounting Standards and Amendments and Interpretations to Existing Standards Effective Subsequent to December 31, 2013

We will adopt the following standards, amendments and interpretations to existing standards enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these standards, amendments and interpretations to PFRS to have a significant impact on our consolidated financial statements.

Effective 2014

Amendments to PFRS 10, PFRS 12 and PAS 27 – Investment Entities. These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *PFRS 10*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is expected that this amendment would not be relevant to us since none of our investees would qualify to be an investment entity under *PFRS 10*.

Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. These amendments to *PAS 32* clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on our net assets, any changes in offsetting are expected to impact leverage ratios and regulatory capital requirements. The amendments to *PAS 32* are to be retrospectively applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PAS 32* on our financial position or performance.

Amendments to PAS 36, Recoverable Amount of Disclosures for Non-Financial Assets. These amendments remove the unintended consequences of *PFRS 13* on the disclosures required under *PAS 36*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which *PFRS 13* is not applied. The amendments affect disclosures only and will have no impact on our financial position or performance.

Philippine Interpretation IFRIC 21, Levies. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after January 1, 2014. The interpretation has no significant impact on our financial position or performance.

Amendments to PAS 39, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. We have not novated our derivatives during the current period. However, these amendments would be considered for future novations.

Effective Subsequent 2014

PFRS 9, Financial Instruments: Classification and Measurement. *PFRS 9*, as issued, reflects the first and third phases of the project to replace *PAS 39* and applies to the classification and measurement of financial assets and financial liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still on-going, with a view to replace *PAS 39* in its entirety. *PFRS 9* requires all financial to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option, or FVO, is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held-for-trading must be measured at FVPL. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a financial liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other *PAS 39* classification and measurement requirements for financial liabilities have been carried forward to *PFRS 9*, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of *PFRS 9* will have an effect on the classification and measurement of our financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, *PFRS 9* replaces the rules-based hedge accounting model of *PAS 39* with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. *PFRS 9* also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. *PFRS 9* may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. We will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue Standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue Standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on our consolidated financial statements.

PAS 40, Investment Property. The amendment clarifies the inter-relationship between *PFRS 3* and *PFRS 40* when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of *PFRS 3*. This judgment is based on the guidance of *PFRS 3*. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on our financial position or performance.

Amendments to PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions. The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to *PAS 19* are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments do not apply to us since our employees are not required to make contributions to the Plan.

Improvement to PFRS

The Annual Improvements to PFRSs (2010-2012 Cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, Share-based Payment – Definition of Vesting Condition. The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to us as we have no share-based payments.

PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination. The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. We shall consider this amendment for future business combinations.

PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets. The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on our financial position or performance.

PFRS 13, Fair Value Measurement – Short-term Receivables and Payables. The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation. The amendment clarifies that, upon revaluation of an item property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; and (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on our financial position or performance.

PAS 24, Related Party Disclosures – Key Management Personnel. The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on our financial position or performance.

PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization. The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; and (b) the accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on our financial position or performance.

The Annual Improvements to PFRS (2011-2013 Cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards – Meaning of “Effective PFRSs”.

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to us as we are not a first-time adopter of PFRS.

PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, Fair Value Measurement – Portfolio Exception. The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on our financial position and performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

Judgments

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

Assets classified as held-for-sale and discontinued operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiations with a potential buyer not lead to a sale, we expect to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statements for the years ended December 31, 2011 and 2010 to present the results of operations of our BPO segment as discontinued operations. See Note 2 – *Summary of Significant Accounting Policies – Discontinued Operations*.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares was executed in four tranches, and was completed by December 2013. Thus, the investment in Philweb was classified as assets held-for-sale as at December 31, 2012. See Note 10 – *Investments in Associates, Joint Ventures and Deposits – Investment in Philweb* and Note 27 – *Financial Assets and Liabilities – ePLDT Group*.

Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for: (a) SMHC, SMI, FECL Group, Piltel International Holdings Corporation, PLDT Global and certain of its subsidiaries, PGNL, DCPL, and certain subsidiaries of Chikka, which use the U.S. dollar; (b) SHPL, TPL, 3rd Brand, CPL, and CISP, which use the Singapore dollar; (c) CCCBL, which use the Chinese renminbi; (d) BTMS, which use the Malaysian ringgit; and (e) PTCL, which use the Indonesian rupiah.

Leases

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php6,041 million, Php5,860 million and Php3,938 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to Php86 million, Php263 million and Php224 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total finance lease obligations from continuing operations amounted to Php11 million, Php18 million and Php14 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php7 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

Accounting for investments in MediaQuest Holdings, Inc., or MediaQuest, through Philippine Depository Receipts, or PDRs

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and indirect interest in Cignal TV, Inc, or Cignal TV. Satventures is a wholly-owned subsidiary of MediaQuest and Cignal TV is a wholly-owned subsidiary of Satventures. ePLDT's investments in PDRs are part of our overall strategy to broaden our distribution platform and increase our ability to deliver multi-media content. On September 27, 2013, the Satventures and Cignal TV PDRs were issued and provided ePLDT a 40% economic interest each in the common shares of Satventures and Cignal TV, or an aggregate of 64% economic interest in Cignal TV.

Based on our judgment, ePLDT's investments in PDRs give ePLDT a significant influence over Satventures and Cignal TV as evidenced by inter-change of managerial personnel, provision of essential technical information and material transactions among PLDT, Smart, Satventures and Cignal TV, thus accounted for as investments in associates using the equity method.

The carrying value of our investments in PDRs issued by MediaQuest amounted to Php9,522 million as at December 31, 2013. See related discussion on *Note 10 – Investment in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of PLDT. Such changes are reflected in the assumptions when they occur.

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The full impairment provision recognized represents the net book value of these network equipment and facilities.

In December 2012, DMPI recognized an impairment loss of Php2,881 million pertaining to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart. The network modernization program resulted in network impairment of DMPI due to advancement in technologies.

In 2013, Smart and DMPI launched a network convergence program designed to consolidate the networks of Smart and DMPI into a single network enabling subscribers of both companies to take advantage of the combined network. The convergence is expected to result in savings from synergies in terms of optimized capital expenditures and cost efficiencies from colocation of base stations, consolidation of core systems, and operating expenses. The program, however, rendered certain network equipment and site facilities obsolete. In view of this, Smart and DMPI recognized full impairment provision on the net book value of the affected network equipment and site facilities amounting to Php378 million and Php1,764 million, respectively.

See *Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property, Plant and Equipment – Impairment of Certain Wireless Network Equipment and Facilities*.

Total asset impairment on noncurrent assets from continuing operations amounted Php2,143 million, Php2,896 million and Php8,514 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to nil for the years ended December 31, 2013 and 2012 and Php3 million for the year ended December 31, 2011. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property, Plant and Equipment*.

The carrying values of our property, plant and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Notes 9, 10, 14 and 18*, respectively.

Estimating useful lives of property, plant and equipment

We estimate the useful lives of each item of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded depreciation and amortization and decrease our property, plant and equipment.

The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php30,304 million, Php32,354 million and Php27,539 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to Php153 million, Php466 million and Php418 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization from continuing operations, amounted to Php192,665 million, Php200,078 million and Php200,142 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php1,529 million as at December 31, 2012.

Estimating useful lives of intangible assets with finite life

Intangible assets acquired from business combination with finite lives are amortized over the expected useful life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets from continuing operations with finite life amounted to Php1,020 million, Php921 million and Php117 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to Php55 million, Php180 million and Php147 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total carrying values of intangible assets with finite life from continuing operations amounted to Php7,286 million, Php7,505 million and Php8,698 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php354 million as at December 31, 2012.

See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information*, *Note 9 – Property, Plant and Equipment* and *Note 14 – Goodwill and Intangible Assets*.

Goodwill and intangible assets with indefinite useful life

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Total carrying values of goodwill and intangible assets with indefinite useful life from continuing operations amounted to Php66,632 million, Php66,745 million and Php74,605 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php6,679 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 14 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets. Based on Smart and SBI's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php12,426 million, Php15,351 million and Php16,098 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php4,496 million, Php3,655 million and Php4,240 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. Total consolidated benefit from deferred income tax from continuing operations amounted to Php4,401 million, Php919 million and Php1,174 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to Php30 million, Php28 million and Php275 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total consolidated net deferred income tax assets from continuing operations amounted to Php14,181 million, Php7,225 million and Php5,117 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php212 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for doubtful accounts

If we assessed that there was an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php3,171 million, Php2,175 million and Php1,543 million for the years ended December 31, 2013, 2012 and 2011, respectively, while that from discontinued operations amounted to Php2 million, Php3 million and Php6 million for the years ended December 31, 2013, 2012 and 2011, respectively. Trade and other receivables, net of allowance for doubtful accounts, from continuing operations amounted to Php17,564 million, Php16,379 million and Php16,245 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php2,704 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses – Asset Impairment*, *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and contribution plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. See *Note 25 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php856 million, Php584 million and Php570 million for the years ended December 31, 2013, 2012 and 2011, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php9 million, Php170 million and Php8 million for the years ended December 31, 2013, 2012 and 2011, respectively. The prepaid benefit costs from continuing operations amounted to Php199 million, Php1,625 million and Php8,626 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. The accrued benefit costs from continuing operations amounted to Php10,310 million, Php492 million and Php438 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to Php206 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 5 – Income and Expenses – Compensation and Employee Benefits*, *Note 18 – Prepayments* and *Note 25 – Employee Benefits – Defined Benefit Pension Plans*.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the Executive Compensation Committee, or ECC, on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded PLDT Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the years ended December 31, 2013 and 2012 amounted to Php1,638 million and Php1,491 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php3,129 million and Php1,491 million as at December 31, 2013 and 2012, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 25 – Employee Benefits – Other Long-term Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,144 million, Php2,543 million and Php2,107 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 – Provisions and Contingencies*.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *PAS 18, Revenue Recognition*, and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount as determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

Determination of fair values of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of financial assets and liabilities as at December 31, 2013 amounted to Php4,965 million and Php115,885 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2012 amounted to Php6,782 million and Php134,036 million, respectively. Total fair values of financial assets and liabilities as at January 1, 2012 amounted to Php8,766 million and Php119,410 million, respectively. See *Note 27 – Financial Assets and Liabilities*.

4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker, or our Management Committee, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- **Wireless** – wireless telecommunications services provided by Smart, CURE and DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Voyager and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;
- **Fixed Line** – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 8% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT, IPCDSI, AGS Group and Curo; and bills printing and other VAS-related services provided by ePDS; and
- **Others** – PGIH, PGIC and PCEV, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests*, for further discussion.

As at December 31, 2013, our chief operating decision maker 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, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012. The results of operations of our BPO business for the years ended December 31, 2012 and 2011 were presented as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations*.

The chief operating decision maker monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income (loss) in the consolidated financial statements.

EBITDA for the year is measured as net income from continuing operations excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net.

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

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, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the year is measured as core income divided by the weighted average number of outstanding common shares. See Note 8 – Earnings Per Common Share for the weighted average number of common shares.

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statement, which is in accordance with PFRS.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2013, 2012 and 2011 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
December 31, 2013					
Revenues					
External customers	117,615	50,716	-	-	168,331
Service revenues (Note 3)	114,971	49,081	-	-	164,052
Non-service revenues (Notes 3 and 5)	2,644	1,635	-	-	4,279
Inter-segment transactions	1,708	12,851	-	(14,559)	-
Service revenues (Note 3)	1,708	12,789	-	(14,497)	-
Non-service revenues (Notes 3 and 5)	-	62	-	(62)	-
Total revenues	119,323	63,567	-	(14,559)	168,331
Results					
Depreciation and amortization (Notes 3 and 9)	16,358	13,946	-	-	30,304
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	3,918	1,625	-	-	5,543
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(54)	(86)	2,882	-	2,742
Interest income (Note 5)	324	392	249	(33)	932
Financing costs – net (Notes 5, 9, 20 and 27)	3,232	3,390	-	(33)	6,589
Provision for (benefit from) income tax (Notes 3 and 7)	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 (Notes 2 and 8)	-	-	-	-	2,069
EBITDA from continuing operations	54,703	22,274	(5)	580	77,552
EBITDA margin	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)
Assets and liabilities					
Operating assets	195,212	172,293	15,522	(38,880)	344,147
Investments in associates, joint ventures and deposits (Notes 3, 5 and 10)	-	11,685	29,625	-	41,310
Deferred income tax assets – net (Notes 3 and 7)	999	13,182	-	-	14,181
Total assets	196,211	197,160	45,147	(38,880)	399,638
Operating liabilities	133,977	143,891	1,220	(21,213)	257,875
Deferred income tax liabilities – net (Notes 3 and 7)	3,591	819	27	-	4,437
Total liabilities	137,568	144,710	1,247	(21,213)	262,312
Other segment information					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	17,092	11,746	-	-	28,838

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
December 31, 2012^(1, 2)					
Revenues					
External customers	114,260	48,773	–	–	163,033
Service revenues (Note 3)	112,107	47,631	–	–	159,738
Non-service revenues (Notes 3 and 5)	2,153	1,142	–	–	3,295
Inter-segment transactions	1,672	11,473	–	(13,145)	–
Service revenues (Note 3)	1,672	11,440	–	(13,112)	–
Non-service revenues (Notes 3 and 5)	–	33	–	(33)	–
Total revenues	115,932	60,246	–	(13,145)	163,033
Results					
Depreciation and amortization (Notes 3 and 9)	19,000	13,354	–	–	32,354
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	4,218	1,068	–	–	5,286
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(78)	108	1,508	–	1,538
Interest income (Note 5)	565	713	76	–	1,354
Financing costs – net (Notes 5, 9, 20 and 27)	2,683	4,193	–	–	6,876
Provision for (benefit from) income tax (Notes 3 and 7)	8,094	(51)	7	–	8,050
Net income / Segment profit	25,014	5,740	4,333	469	36,099
Continuing operations	25,014	5,740	4,333	469	35,556
Discontinued operations (Notes 2 and 8)	–	–	–	–	543
EBITDA from continuing operations	54,480	20,089	(18)	837	75,388
EBITDA margin	48%	34%	–	(6%)	47%
Core income	25,694	5,769	4,424	469	36,907
Continuing operations	25,694	5,769	4,424	469	36,356
Discontinued operations	–	–	–	–	551
Assets and liabilities					
Operating assets	202,494	182,223	9,979	(36,933)	357,763
Investments in associates, joint ventures and deposits (Notes 3, 5 and 10)	54	6,222	20,801	–	27,077
Deferred income tax assets – net (Notes 3 and 7)	754	6,471	–	–	7,225
Assets classified as held-for-sale (Notes 2, 3 and 10)	–	638	–	–	13,750
Total assets	203,302	195,554	30,780	(36,933)	405,815
Operating liabilities	134,524	138,338	4,788	(25,893)	251,757
Deferred income tax liabilities – net (Notes 3 and 7)	4,918	795	–	–	5,713
Liabilities directly associated with assets classified as held-for-sale (Note 2)	–	–	–	–	2,611
Total liabilities	139,442	139,133	4,788	(25,893)	260,081
Other segment information⁽¹⁾					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	22,058	13,726	–	–	36,396
Continuing operations	22,058	13,726	–	–	35,784
Discontinued operations	–	–	–	–	612
December 31, 2011^(1, 2)					
Revenues					
External customers	102,043	46,436	–	–	148,479
Service revenues (Note 3)	100,574	45,260	–	–	145,834
Non-service revenues (Notes 3 and 5)	1,469	1,176	–	–	2,645
Inter-segment transactions	1,495	11,854	–	(13,349)	–
Service revenues (Note 3)	1,495	11,836	–	(13,331)	–
Non-service revenues (Notes 3 and 5)	–	18	–	(18)	–
Total revenues	103,538	58,290	–	(13,349)	148,479
Results					
Depreciation and amortization (Notes 3 and 9)	14,295	13,244	–	–	27,539
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	9,197	1,003	–	–	10,200
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(115)	307	1,843	–	2,035
Interest income (Note 5)	677	590	90	–	1,357
Financing costs – net (Notes 5, 9, 20 and 27)	2,744	3,710	–	–	6,454
Provision for income tax (Notes 3 and 7)	8,429	2,303	2	–	10,734
Net income / Segment profit	22,366	5,847	1,985	153	31,218
Continuing operations	22,366	5,847	1,985	153	30,351
Discontinued operations (Notes 2 and 8)	–	–	–	–	867
EBITDA from continuing operations	55,433	22,382	(11)	421	78,225
EBITDA margin	54%	39%	–	3%	54%
Core income	29,903	5,310	2,461	153	38,616
Continuing operations	29,903	5,310	2,461	153	37,827
Discontinued operations	–	–	–	–	789

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
Assets and liabilities					
Operating assets	172,259	256,644	9,982	(73,283)	365,602
Investments in associates, joint ventures and deposits (Notes 3, 5 and 10)	–	1,272	16,593	–	17,865
Deferred income tax assets – net (Notes 3 and 7)	1,071	3,820	–	–	4,891
Discontinued operations (Note 2)	–	–	–	–	13,434
Total assets	173,330	261,736	26,575	(73,283)	401,792
Operating liabilities	133,030	127,642	754	(24,179)	237,247
Deferred income tax liabilities – net (Notes 3 and 7)	1,158	1,363	–	4,450	6,971
Discontinued operations (Note 2)	–	–	–	–	3,328
Total liabilities	134,188	129,005	754	(19,729)	247,546
Other segment information⁽¹⁾					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	17,152	13,654	1	–	31,207
Continuing operations	17,152	13,654	1	–	30,807
Discontinued operations	–	–	–	–	400

⁽¹⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

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

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2013, 2012 and 2011:

	2013	2012 ⁽¹⁾	2011 ^(1, 2)
(in million pesos)			
EBITDA from continuing operations	77,552	75,388	78,225
Add (deduct) adjustments to continuing operations:			
Other income – net (Notes 2 and 18)	4,113	5,813	2,626
Equity share in net earnings of associates and joint ventures (Note 10)	2,742	1,538	2,035
Interest income (Notes 2, 5, 11 and 15)	932	1,354	1,357
Gains (losses) on derivative financial instruments – net (Notes 2 and 27)	511	(2,009)	201
Amortization of intangible assets (Notes 3 and 14)	(1,020)	(921)	(117)
Retroactive effect of adoption of Revised PAS 19 (Note 2)	(1,269)	1,287	–
Asset impairment on noncurrent assets (Notes 3 and 5)	(2,143)	(2,896)	(8,514)
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(2,893)	3,282	(735)
Financing costs – net (Notes 2, 5, 9, 20 and 27)	(6,589)	(6,876)	(6,454)
Provision for income tax (Notes 2, 3 and 7)	(8,248)	(8,050)	(10,734)
Depreciation and amortization (Notes 3 and 9)	(30,304)	(32,354)	(27,539)
Total adjustments	(44,168)	(39,832)	(47,874)
Net income from continuing operations	33,384	35,556	30,351
Net income from discontinued operations (Notes 2 and 8)	2,069	543	867
Consolidated net income	35,453	36,099	31,218

⁽¹⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

⁽²⁾ Includes the Digital Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2013, 2012 and 2011:

	2013	2012 ⁽¹⁾	2011 ^(1, 2)
		(in million pesos)	
Core income from continuing operations	38,816	36,356	37,827
Core income from discontinued operations	(99)	551	789
Consolidated core income	38,717	36,907	38,616
Add (deduct) adjustments to continuing operations:			
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)	816	(1,689)	564
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	59	(91)	(476)
Net income (loss) attributable to noncontrolling interests	33	(49)	(60)
Casualty losses due to typhoon “Yolanda”	(878)	–	–
Retroactive effect of adoption of Revised PAS 19 (Note 2)	(1,269)	1,287	–
Asset impairment (Notes 3, 5 and 9)	(2,143)	(2,896)	(8,514)
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(2,893)	3,282	(741)
Net tax effect of aforementioned adjustments	843	(644)	1,608
Others	–	–	143
Total adjustments	(5,432)	(800)	(7,476)
Adjustments to discontinued operations	2,168	(8)	78
Net income from continuing operations	33,384	35,556	30,351
Net income from discontinued operations (Notes 2 and 8)	2,069	543	867
Consolidated net income	35,453	36,099	31,218

⁽¹⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

⁽²⁾ Includes the Digital Group’s core income for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holders of PLDT for the years ended December 31, 2013, 2012 and 2011:

	2013		2012 ⁽¹⁾		2011 ^(1, 2)	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Core EPS from continuing operations	179.38	179.38	168.03	168.03	195.27	195.10
Core EPS from discontinued operations	(0.45)	(0.45)	2.55	2.55	4.12	4.12
Consolidated core EPS	178.93	178.93	170.58	170.58	199.39	199.22
Add (deduct) adjustments to continuing operations:						
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)	2.65	2.65	(5.47)	(5.47)	2.06	2.06
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	0.27	0.27	(0.42)	(0.42)	(2.48)	(2.48)
Casualty losses due to typhoon “Yolanda”	(3.58)	(3.58)	–	–	–	–
Retroactive effect of adoption of Revised PAS 19 (Note 2)	(5.10)	(5.10)	5.18	5.18	–	–
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(9.61)	(9.61)	10.63	10.63	(2.68)	(2.67)
Asset impairment (Notes 3, 5 and 9)	(9.92)	(9.92)	(13.40)	(13.40)	(36.47)	(36.44)
Gain on disposal of investment and others	–	–	–	–	0.82	0.82
Total adjustments	(25.29)	(25.29)	(3.48)	(3.48)	(38.75)	(38.71)
Adjustments to discontinued operations	10.03	10.03	(0.03)	(0.03)	0.41	0.40
EPS from continuing operations attributable to common equity holders of PLDT (Note 8)	154.09	154.09	164.55	164.55	156.52	156.39
EPS from discontinued operations attributable to common equity holders of PLDT (Notes 2 and 8)	9.58	9.58	2.52	2.52	4.53	4.52
Consolidated EPS attributable to common equity holders of PLDT (Note 8)	163.67	163.67	167.07	167.07	161.05	160.91

⁽¹⁾ As adjusted to reflect the adjustments on the application of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

⁽²⁾ Includes the Digital Group’s core income for the period from October 26, 2011 to December 31, 2011.

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2013, 2012 and 2011:

	2013	2012 ⁽¹⁾	2011 ⁽¹⁾
		(in million pesos)	
Wireless services			
Service revenues:			
Cellular	104,278	102,044	92,150
Broadband, satellite and others	10,693	10,063	8,424
	114,971	112,107	100,574
Non-service revenues:			
Sale of cellular handsets, cellular SIM-packs and broadband data modems	2,644	2,153	1,469
Total wireless revenues	117,615	114,260	102,043
Fixed line services			
Service revenues:			
Local exchange	16,173	16,357	15,616
International long distance	6,848	6,909	7,092
National long distance	4,205	4,678	5,218
Data and other network	21,077	18,975	16,426
Miscellaneous	778	712	908
	49,081	47,631	45,260
Non-service revenues:			
Sale of computers	1,160	551	658
Point-product-sales	475	591	518
Total fixed line revenues	50,716	48,773	46,436
Total revenues from continuing operations	168,331	163,033	148,479

⁽¹⁾ As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

For each of the years ended December 31, 2013, 2012 and 2011, no revenue transactions with a single external customer had accounted for 10% or more of our consolidated revenues from external customers.

5. Income and Expenses

Non-service Revenues

Non-service revenues for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	3,804	2,704	2,127
Point-product-sales	475	591	518
(Note 4)	4,279	3,295	2,645

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(As Adjusted – Note 2)	
		(in million pesos)	
Salaries and other employee benefits	17,034	17,462	14,718
Manpower rightsizing program, or MRP	1,869	2,521	132
Incentive plans (Notes 3 and 25)	1,638	1,491	–
Pension benefit costs (Notes 3 and 25)	828	525	561
	21,369	21,999	15,411

Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

Cost of Sales

Cost of sales for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	11,380	8,074	4,851
Cost of point-product-sales	376	593	487
Cost of satellite air time and terminal units (Note 24)	50	80	105
	11,806	8,747	5,443

Asset Impairment

Asset impairment for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(in million pesos)	
Trade and other receivables (Notes 3 and 16)	3,171	2,175	1,543
Property, plant and equipment (Notes 3 and 9)	2,142	2,881	8,470
Inventories and supplies (Notes 3 and 17)	229	215	143
Investments in associates and joint ventures (Notes 3 and 10)	1	–	44
Prepayment and others (Note 3)	–	15	–
	5,543	5,286	10,200

Interest Income

Interest income for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(in million pesos)	
Interest income on other loans and receivables	790	1,310	1,321
Interest income on HTM investments (Note 11)	135	31	31
Interest income on FVPL	7	13	5
(Note 4)	932	1,354	1,357

Financing Costs – net

Financing costs – net for the years ended December 31, 2013, 2012 and 2011 consists of the following:

	2013	2012	2011
		(in million pesos)	
Interest on loans and other related items (Notes 20 and 27)	5,086	6,319	5,948
Accretion on financial liabilities (Notes 20 and 27)	1,541	1,053	1,037
Financing charges	383	418	117
Capitalized interest (Note 9)	(421)	(914)	(648)
(Note 4)	6,589	6,876	6,454

6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the years ended December 31, 2013, 2012 and 2011 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains on available-for-sale financial investments – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Actuarial gains (losses) on defined benefit plans – net of tax	Share in the other comprehensive income of associates and joint ventures accounted for using the equity method	Total other comprehensive income (loss) attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive income (loss) – net of tax
	(in million pesos)								
Balances as at January 1, 2013 (As Adjusted – Note 2)	441	75	44	240	(4,177)	(10)	(3,387)	6	(3,381)
Other comprehensive income (loss)	802	(8)	(16)	(1)	(9,156)	1,020	(7,359)	(8)	(7,367)
Discontinued operations (Note 2)	(747)	–	12	–	–	–	(735)	–	(735)
Balances as at December 31, 2013	496	67	40	239	(13,333)	1,010	(11,481)	(2)	(11,483)
Balances as at January 1, 2012 (As Adjusted – Note 2)	(1,014)	52	14	314	2,099	(10)	1,455	8	1,463
Revaluation increment removed from other comprehensive income taken to retained earnings	–	–	–	(105)	–	–	(105)	–	(105)
Other comprehensive income (loss)	(795)	23	92	31	(6,231)	–	(6,880)	(2)	(6,882)
Discontinued operations (Note 2)	2,250	–	(62)	–	(45)	–	2,143	–	2,143
Balances as at December 31, 2012 (As Adjusted – Note 2)	441	75	44	240	(4,177)	(10)	(3,387)	6	(3,381)
Balances as at January 1, 2011 (As Adjusted – Note 2)	(1,639)	49	–	314	–	–	(1,276)	(1)	(1,277)
Other comprehensive income	625	3	14	–	2,099	(10)	2,731	9	2,740
Balances as at December 31, 2011 (As Adjusted – Note 2)	(1,014)	52	14	314	2,099	(10)	1,455	8	1,463

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment transferred to investment property at the time of change in classification.

7. Income Taxes

Corporate Income Tax

The major components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
			(As Adjusted – Note 2)
		(in million pesos)	
Net deferred income tax assets (Notes 3 and 4)	14,181	7,225	5,117
Net deferred income tax liabilities (Note 4)	(4,437)	(5,713)	(7,078)

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
			(As Adjusted – Note 2)
		(in million pesos)	
Net deferred income tax assets:			
Pension and other employee benefits	3,623	(369)	(2,511)
Unearned revenues	2,980	2,305	2,726
Accumulated provision for doubtful accounts	2,597	2,379	2,466
Unamortized past service pension costs	2,312	2,244	2,124
Unrealized foreign exchange losses	1,548	970	111
Customer list	1,318	–	–
Derivative financial instruments	528	922	768
Provision for other assets	367	367	441
Accumulated write-down of inventories to net realizable values	205	135	198
NOLCO	130	145	326
Fixed asset impairment	125	24	1,469
MCIT	34	33	9
Capitalized taxes and duties – net of amortization	(5)	(65)	(125)
Undepreciated capitalized interest charges	(1,751)	(1,964)	(2,624)
Capitalized foreign exchange differential – net of depreciation	–	(100)	(231)
Others	170	199	(30)
Total deferred income tax assets	14,181	7,225	5,117
Net deferred income tax liabilities:			
Intangible assets – net of amortization	3,182	3,607	3,725
Unrealized foreign exchange gains	675	2,049	1,756
Unamortized fair value adjustment on fixed assets from business combinations	644	687	997
Undepreciated capitalized interest charges	9	82	582
Debt issuance costs	–	(3)	–
Fixed asset impairment	–	(28)	–
Others	(73)	(681)	18
Total deferred income tax liabilities	4,437	5,713	7,078

Changes in our consolidated net deferred income tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
		(As Adjusted – Note 2)
		(in million pesos)
Net deferred income tax assets – balance at beginning of the year (Notes 3 and 4)	7,225	5,117
Net deferred income tax liabilities – balance at beginning of the year (Notes 3 and 4)	(5,713)	(7,078)
Net balance at beginning of the year	1,512	(1,961)
Movement charged directly to other comprehensive income	3,833	2,682
Benefit from deferred income tax (Note 3)	4,401	947
Discontinued operations (Note 2)	–	(65)
Others	(2)	(91)
Net balance at end of the year	9,744	1,512
Net deferred income tax assets – balance at end of the year (Notes 3 and 4)	14,181	7,225
Net deferred income tax liabilities – balance at end of the year (Notes 3 and 4)	(4,437)	(5,713)

The analysis of our consolidated net deferred income tax assets as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
	(As Adjusted – Note 2)		
	(in million pesos)		
Deferred income tax assets:			
Deferred income tax assets to be recovered after 12 months	13,181	7,135	8,505
Deferred income tax assets to be recovered within 12 months	3,283	2,820	2,541
	16,464	9,955	11,046
Deferred income tax liabilities:			
Deferred income tax liabilities to be settled after 12 months	(1,645)	(2,040)	(5,159)
Deferred income tax liabilities to be settled within 12 months	(638)	(690)	(770)
	(2,283)	(2,730)	(5,929)
Net deferred income tax assets (Notes 3 and 4)	14,181	7,225	5,117

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
	(As Adjusted – Note 2)		
	(in million pesos)		
Deferred income tax assets:			
Deferred income tax assets to be recovered after 12 months	58	835	–
Deferred income tax assets to be recovered within 12 months	15	263	274
	73	1,098	274
Deferred income tax liabilities:			
Deferred income tax liabilities to be settled after 12 months	(4,005)	(6,173)	(6,982)
Deferred income tax liabilities to be settled within 12 months	(505)	(638)	(370)
	(4,510)	(6,811)	(7,352)
Net deferred income tax liabilities (Notes 3 and 4)	(4,437)	(5,713)	(7,078)

Provision for (benefit from) corporate income tax from continuing operations for the years ended December 31, 2013, 2012 and 2011 consists of:

	2013	2012	2011
	(As Adjusted – Note 2)		
	(in million pesos)		
Current	12,649	8,969	11,908
Deferred (Note 3)	(4,401)	(919)	(1,174)
	8,248	8,050	10,734

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(As Adjusted – Note 2)	
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate:			
Continuing operations	12,490	13,082	12,325
Discontinued operations (Note 2)	637	291	295
	13,127	13,373	12,620
Tax effects of:			
Nondeductible expenses	235	1,372	520
Income not subject to income tax	(622)	(1,853)	(1,090)
Losses (income) subject to lower tax rate	(702)	(834)	412
Equity share in net earnings of associates and joint ventures	(822)	(461)	(610)
Income subject to final tax	(899)	(933)	(408)
Difference between OSD and itemized deductions	(1,397)	–	(1,578)
Net movement in unrecognized deferred income tax assets and other adjustments	(617)	(2,186)	986
	(4,824)	(4,895)	(1,768)
Actual provision for corporate income tax:			
Continuing operations	8,248	8,050	10,734
Discontinued operations (Note 2)	55	428	118
	8,303	8,478	10,852

In accordance with Republic Act 9504 as implemented by Revenue Regulations No. 16-2008, corporations may elect a standard deduction in an amount equivalent to 40% of gross income in lieu of the itemized allowed deductions.

For taxable year 2013, Smart opted to use OSD method in computing its taxable income. In line with this, certain deferred income tax assets and liabilities of Smart, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php4,496 million, Php3,655 million and Php4,240 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Recognition of Deferred Income Tax Assets and Liabilities.

The breakdown of our consolidated deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Fixed asset impairment	20,507	23,881	29,029
Provisions for other assets	5,694	8,303	6,532
Unearned revenues	6,529	5,023	893
Accumulated provision for doubtful accounts	3,765	3,177	4,113
NOLCO	2,085	8,741	11,372
Asset retirement obligation	537	902	627
MCIT	382	133	133
Pension and other employee benefits	362	155	127
Accumulated write-down of inventories to net realizable values	191	167	270
Derivative financial instruments	130	132	155
Unrealized foreign exchange losses	34	28	22
Operating lease and others	314	217	76
	40,530	50,859	53,349
Unrecognized deferred income tax assets (Note 3)	12,426	15,351	16,098

As at December 31, 2013, Digitel Group's deferred income tax assets were not recognized because management believes that there is no sufficient future taxable income that will be available upon which these can be utilized. Digitel Group's unrecognized deferred income tax assets amounted to Php12,172 million, Php15,098 million and Php14,766 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2013 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2011	December 31, 2014	61	233
December 31, 2012	December 31, 2015	107	269
December 31, 2013	December 31, 2016	248	2,017
		416	2,519
Consolidated tax benefits		416	756
Consolidated unrecognized deferred income tax assets		(382)	(626)
Consolidated recognized deferred income tax assets		34	130

The excess MCIT totaling Php416 million as at December 31, 2013 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php9 million, Php37 million and Php446 million for the years ended December 31, 2013, 2012 and 2011, respectively. The amount of expired portion of excess MCIT amounted to Php11 million, Php8 million and Php16 million for the years ended December 31, 2013, 2012 and 2011, respectively.

NOLCO totaling Php2,519 million as at December 31, 2013 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php6,643 million, Php3,989 million and Php827 million for the years ended December 31, 2013, 2012 and 2011, respectively. The amount of expired portion of excess NOLCO amounted to Php23 million, Php425 million and Php330 million for the years ended December 31, 2013, 2012 and 2011, respectively.

There are no income tax consequences attached to the payment of dividends in 2013, 2012 and 2011 by the PLDT Group to its shareholders.

Registration with Subic Bay Freeport and Clark Special Economic Zone

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

Registration with Philippine Economic Zone Authorities, or PEZA

SeMI was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SeMI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009. SeMI availed Php1 million tax incentive in December 2011. However, SeMI is in a net loss position in December 2013 and 2012, hence, no tax incentives were availed from the registration with the Economic Zone.

On July 23, 2013, PEZA approved IPCDSI's application for pioneer status as an Ecozone IT enterprise. IPCDSI was granted a three-year ITH for its expansion project up to June 29, 2015, among others. Income from its IT operations shall be covered by the 5% gross income tax incentive, in lieu of all national and local taxes, including additional deductions for training expenses.

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php39 million, Php190 million and Php1,136 million for the years ended December 31, 2013, 2012 and 2011, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2013, 2012 and 2011:

	2013		2012		2011	
			(As Adjusted – Note 2)			
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(in million pesos)					
Net income attributable to equity holders of PLDT from:						
Continuing operations	33,351	33,351	35,605	35,605	30,411	30,411
Discontinued operations (Notes 2 and 4)	2,069	2,069	543	543	867	867
Consolidated net income attributable to common shares (Note 4)	35,420	35,420	36,148	36,148	31,278	31,278
Dividends on preferred shares (Note 19)	(60)	(60)	(52)	(52)	(458)	(458)
Consolidated net income attributable to common equity holders of PLDT	35,360	35,360	36,096	36,096	30,820	30,820
	(in thousands, except per share amounts which are in pesos)					
Outstanding common shares at beginning of the year	216,056	216,056	214,436	214,436	186,756	186,756
Effect of issuance of common shares during the year (Note 19)	–	–	1,619	1,619	4,613	4,613
Effect of mandatory tender offer for all remaining Digitel shares	–	–	–	–	–	164
Weighted average number of common shares	216,056	216,056	216,055	216,055	191,369	191,533
EPS from continuing operations (Note 4)	154.09	154.09	164.55	164.55	156.52	156.39
EPS from discontinued operations (Notes 2 and 4)	9.58	9.58	2.52	2.52	4.53	4.52
EPS attributable to common equity holders of PLDT (Note 4)	Php163.67	Php163.67	Php167.07	Php167.07	Php161.05	Php160.91

Basic EPS amounts are calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the year exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digital shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

9. Property, Plant and Equipment

Changes in property, plant and equipment account for the years ended December 31, 2013 and 2012 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
(in million pesos)										
As at January 1, 2012										
Cost	146,430	92,953	119,791	24,299	40,731	966	9,102	3,014	44,361	481,647
Accumulated depreciation, impairment and amortization	(86,947)	(72,368)	(68,473)	(11,716)	(32,881)	(966)	(7,876)	(278)	–	(281,505)
Net book value (Note 3)	59,483	20,585	51,318	12,583	7,850	–	1,226	2,736	44,361	200,142
Year Ended December 31, 2012										
Net book value at beginning of the year (Note 3)	59,483	20,585	51,318	12,583	7,850	–	1,226	2,736	44,361	200,142
Additions	2,750	415	8,879	562	2,549	–	387	2	21,144	36,688
Disposals/Retirements	(10)	(5)	(26)	(4)	(74)	–	–	(7)	–	(126)
Translation differences charged directly to cumulative translation adjustments	(2)	(10)	–	(15)	(49)	–	–	–	(7)	(83)
Acquisition through business combinations (Note 13)	112	104	–	45	6	–	–	–	–	267
Impairment losses recognized during the year (Note 5)	(5)	–	(2,876)	–	–	–	–	–	–	(2,881)
Reclassifications (Notes 12 and 17)	1,543	(321)	(3,452)	131	2,438	–	(65)	401	(253)	422
Transfers and others	8,000	4,045	4,227	449	990	–	47	–	(17,758)	–
Depreciation of revaluation increment on investment properties transferred to property, plant and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization (Notes 2, 3 and 4)	(11,380)	(4,130)	(9,678)	(1,493)	(5,606)	–	(532)	(1)	–	(32,820)
Discontinued operations (Note 2)	–	(155)	–	(340)	(694)	–	–	(165)	(175)	(1,529)
Net book value at end of the year (Note 3)	60,491	20,528	48,392	11,916	7,410	–	1,063	2,966	47,312	200,078
As at December 31, 2012										
Cost	157,036	95,258	100,935	24,333	42,628	966	9,341	3,224	47,312	481,033
Accumulated depreciation, impairment and amortization	(96,545)	(74,730)	(52,543)	(12,417)	(35,218)	(966)	(8,278)	(258)	–	(280,955)
Net book value (Note 3)	60,491	20,528	48,392	11,916	7,410	–	1,063	2,966	47,312	200,078

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
(in million pesos)										
Year Ended December 31, 2013										
Net book value at beginning of the year (Note 3)	60,491	20,528	48,392	11,916	7,410	-	1,063	2,966	47,312	200,078
Additions	2,456	583	5,331	333	1,908	-	627	437	16,802	28,477
Disposals/Retirements	(626)	(128)	(269)	(42)	(107)	-	(1)	(440)	(384)	(1,997)
Translation differences charged directly to cumulative translation adjustments	8	(3)	-	(3)	10	-	-	-	-	12
Impairment losses recognized during the year (Note 5)	(305)	-	(1,778)	-	(50)	-	(9)	-	-	(2,142)
Reclassifications (Notes 12 and 17)	21	64	1,086	(147)	(10)	-	-	(280)	(2,191)	(1,457)
Transfers and others	4,643	3,172	5,172	272	1,053	-	179	3	(14,494)	-
Depreciation of revaluation increment on investment properties transferred to property, plant and equipment charged to other comprehensive income	-	-	-	(2)	-	-	-	-	-	(2)
Depreciation and amortization (Notes 2, 3 and 4)	(9,984)	(3,788)	(10,923)	(1,325)	(3,680)	-	(602)	(2)	-	(30,304)
Net book value at end of the year (Note 3)	56,704	20,428	47,011	11,002	6,534	-	1,257	2,684	47,045	192,665
As at December 31, 2013										
Cost	175,695	115,625	152,885	26,441	48,595	966	11,091	2,943	47,045	581,286
Accumulated depreciation, impairment and amortization	(118,991)	(95,197)	(105,874)	(15,439)	(42,061)	(966)	(9,834)	(259)	-	(388,621)
Net book value (Note 3)	56,704	20,428	47,011	11,002	6,534	-	1,257	2,684	47,045	192,665

Substantially all of our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than the Philippine peso, which are principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php421 million, Php914 million and Php648 million for the years ended December 31, 2013, 2012 and 2011, respectively. See *Note 5 – Income and Expenses – Financing Costs, net*. Our undepreciated interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php6,885 million, Php7,686 million and Php10,357 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. The average interest capitalization rates used were approximately 5% each for the years ended December 31, 2013 and 2012, and 4% for the year ended December 31, 2011.

Our undepreciated capitalized net foreign exchange losses that qualified as borrowing costs amounted to Php80 million, Php353 million and Php837 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. Our net foreign exchange gains differences which qualified as deduction against borrowing costs amounted to Php80 million for the year ended December 31, 2013. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the years ended December 31, 2012 and 2011.

The useful lives of our property, plant and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	3 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 years
Vehicles, furniture and other network equipment	3 – 5 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases, which amounted to Php18 million, Php22 million and Php6 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

Impairment of Certain Wireless Network Equipment and Facilities

In 2013, Smart and DMPI launched a network convergence program designed to consolidate the networks of Smart and DMPI into a single network enabling subscribers of both companies to take advantage of the combined network. The convergence is expected to result in savings from synergies in terms of optimized capital expenditures and cost efficiencies from colocation of base stations, consolidation of core systems, and operating expenses. The program, however, rendered certain network equipment and site facilities obsolete. In view of this, Smart and DMPI recognized full impairment provision on the net book value of the affected network equipment and site facilities amounting to Php378 million and Php1,764 million, respectively.

In 2012, DMPI recognized an impairment loss of Php2,881 million pertaining to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart.

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The full impairment provision recognized represents the net book value of these network equipment and facilities.

See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Asset Impairment and Note 5 – Income and Expenses – Asset Impairment.

10. Investments in Associates, Joint Ventures and Deposits

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Carrying value of investments in associates:			
MediaQuest	9,522	–	–
Pacific Global One Aviation Co., Inc., or PG1	111	132	155
Digitel Crossing, Inc., or DCI	102	90	92
Philweb	–	–	1,025
Beta	–	–	–
ACeS International Limited, or AIL	–	–	–
Asia Netcom Philippines Corp., or ANPC	–	–	–
	9,735	222	1,272
Carrying value of investments in joint ventures:			
Beacon Electric Asset Holdings, Inc., or Beacon	29,625	20,801	16,593
Mobile Payment Solutions Pte. Ltd., or MPS	–	54	–
PLDT Italy S.r.l., or PLDT Italy	–	–	–
	29,625	20,855	16,593
Deposit for future PDRs subscription:			
MediaQuest	1,950	6,000	–
Total carrying value of investments in associates, joint ventures and deposits	41,310	27,077	17,865

Changes in the cost of investments and deposits for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(in million pesos)	
Balance at beginning of the year	26,312	18,196
Additions during the year	5,557	8,843
Reclassification	5,440	–
Disposal during the year	(254)	–
Assets classified as held-for-sale	–	(712)
Translation and other adjustments	19	(15)
Balance at end of the year	37,074	26,312

Changes in the accumulated impairment losses for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(in million pesos)	
Balance at beginning of the year	1,877	1,882
Translation and other adjustments	6	(5)
Balance at end of the year	1,883	1,877

Changes in the accumulated equity share in net earnings of associates and joint ventures for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(in million pesos)	
Balance at beginning of the year	2,642	1,551
Equity share in net earnings (losses) of associates and joint ventures (Note 4):	2,742	1,538
Beacon	2,769	1,508
Beta	113	–
DCI	13	(2)
PG1	(21)	(26)
MPS	(54)	(78)
MediaQuest	(78)	–
Philweb	–	136
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method	1,020	–
Disposals	253	–
Dividends	(405)	(33)
Assets classified as held-for-sale	–	(416)
Translation and other adjustments	(133)	2
Balance at end of the year	6,119	2,642

Investments in Associates

Investment in MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, for the issuance of PDRs by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name “Cignal TV”, which is the largest DTH Pay-TV operator in the Philippines with 602 thousand net subscribers as at December 31, 2013.

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

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. See *Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

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

ePLDT’s deposit for future PDRs subscription amounted to Php1.95 billion for Hastings PDRs as at December 31, 2013 and Php6 billion for Cignal TV PDRs as at December 31, 2012.

On March 4, 2014, PLDT's Board of Directors approved an additional investment of up to Php500 million in Hastings PDRs to be issued by MediaQuest, which will increase ePLDT's investment in Hastings PDRs from Php1.95 billion up to Php2.45 billion representing a 60% economic interest in Hastings. Also, a new investor will subscribe for a 40% economic interest in Hastings either directly through Hastings or PDRs to be issued by MediaQuest in relation to its interest in Hastings.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

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

Investment in PG1

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, MPIC and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PG1, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed to 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PG1 and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PG1 certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million was booked as advances and shall be paid by PG1 to PLDT in cash as soon as reasonably practicable after incorporation. PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PG1, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PG1.

As at December 31, 2013, MPG, Philex, MPTC, MPIC and JSL owns 5%, 15%, 5%, 10% and 15% of PG1, respectively. PLDT has significant influence in PG1; consequently, PLDT has accounted for its investment in PG1 as an investment in associate.

On January 28, 2014, PLDT's Board of Directors approved the purchase of 37.5 million shares of PG1 owned by JSL which effectively increases PLDT's ownership in PG1 from 50% to 65%. The cash consideration for the shares purchased was Php23 million.

Investment of Digital in DCI and ANPC

Digital has 60% and 40% interest in Asia Netcom Philippines Corporation, or ANPC, and Digital Crossing, Inc., or DCI, respectively. DCI is involved in the business of cable system linking Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digital, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, or JV, Digital and PNPI formed ANPC to replace BIG. Digital contributed US\$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digital provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011, Digital recorded a reversal of impairment loss amounting to Php92 million following recent improvement in the associates' operations.

Digital has no control over ANPC despite owning more than half of voting interest because of certain governance matters, and management has assessed that Digital only has significant influence.

Digital's investment in DCI does not qualify as investment in JV as there is no provision for joint control in the JV agreement among Digital, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digital, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digital change in control. As at the date of issuance of this report, Digital management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements.

Investment of ePLDT in Philweb

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide.

In May 2006, ePLDT subscribed to newly issued common shares of Philweb for an aggregate amount of Php503 million, representing 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. The remaining Php75 million was paid in July 2012, as discussed below.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share for an aggregate amount of Php209 million.

On September 22, 2009, PSE approved the change in par value of Philweb shares from Php0.01 to Php1.00. Thus, the total number of shares subscribed by ePLDT was reduced to 332 million shares from 33,157 million shares.

The market value of ePLDT's investment in Philweb amounted to Php5,093 million, based on quoted share price of Php15.36 as at January 1, 2012.

On April 19, 2012, Philweb approved the 20% stock dividend declaration payable on May 30, 2012 to stockholders of record as at May 4, 2012, thereby increasing ePLDT's shares to 398 million shares.

On June 30, 2012, as a result of the committed plan of ePLDT to sell its interest over Philweb following a strategic review of the PLDT Group's business, the investment in Philweb was reclassified as assets held-for-sale in accordance with *PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations*. Consequently, the assets classified as held-for-sale was carried at the carrying value of the investment in Philweb, which is lower than the fair value less costs to sell of the Philweb shares.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. Based on the agreement, the sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. Philweb shall have the unilateral option to accelerate the acquisition of the portion of the subject shares corresponding to the second to fourth tranches upon prior written notice of five days to ePLDT. The rights (including the rights to receive dividend) to the first to fourth tranches of the subject shares shall belong to Philweb after the closing of the sale of each tranche. The first tranche, which was transacted on July 13, 2012, was for 93.5 million common shares for a purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million.

On October 17, 2012, a Supplement to the Share Purchase Agreement was entered into wherein Philweb designated its wholly-owned subsidiary, Philweb Casino Corporation, or PCC, to act as the buyer of the second to fourth tranches and to make the second to fourth payments.

Subsequently, on October 18, 2012, a Second Supplement to the Share Purchase Agreement was agreed among Philweb, ePLDT and PCC, wherein PCC, as the designee of Philweb notified ePLDT of its desire to exercise its option to accelerate the acquisition of the portion of the Philweb shares corresponding to the second tranche from December 12, 2012 to October 18, 2012, or one day after the PSE approves the special block sale, whichever is later. The acquisition of the second tranche, which was for 93.5 million common shares for a purchase price of Php1 billion, was completed on October 19, 2012.

On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion.

On December 13, 2013, the fourth tranche was paid for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche, or Php1.3 billion. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments – ePLDT Group*.

The investment in Philweb with a remaining balance of Php638 million was classified as assets held-for-sale as at December 31, 2012. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations*.

Investment of PLDT Global Investments Corporation, or PGIC, in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, and Beta, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 19.7% equity interest in Beta for a total cost of approximately US\$40 million, which consists of preferred shares of US\$39.8 million and ordinary shares of US\$0.2 million. In June 2013, PGIC transferred 112 ordinary shares and 41,069 preferred shares to certain employees of Beta for a total consideration price of US\$42 thousand. The equity interest of PGIC in Beta remained at 19.7% after the transfer with economic interest of 18.24%. See related discussion on *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

Alpha and Beta are both exempted limited liability companies incorporated under the laws of Cayman Islands and are both controlled by CVC. Beta has been designated to be the holding company of the SPI Technologies, Inc. and Subsidiaries, or SPI Group.

The carrying value of PGIC's investment in Beta's preferred shares amounting to Php1,862 million was presented as part of investment in debt securities and other long-term investments in our consolidated statement of financial position as at December 31, 2013.

PGIC is a wholly-owned subsidiary of PLDT Global, which was incorporated under the laws of British Virgin Islands.

Investment of ACeS Philippines in AIL

As at December 31, 2013, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net income of AIL amounted to Php361 million, Php3 million and Php57 million for the years ended December 31, 2013, 2012 and 2011, respectively. Share in net cumulative losses amounting to Php1,412 million, Php2,005 million and Php2,035 million as at December 31, 2013 and 2012, and January 1, 2012, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations* for further details as to the contractual relationships with respect to AIL.

Summarized Financial Information of Associates

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at December 31, 2013 and 2012, and January 1, 2012 and for the years ended December 31, 2013, 2012 and 2011:

	As at December 31,		As at January 1,
	2013	2012	2012
		(in million pesos)	
Statements of Financial Position:			
Noncurrent assets	5,547	296	894
Current assets	2,563	610	912
Equity	(725)	(1,679)	(858)
Noncurrent liabilities	4,935	873	1,489
Current liabilities	3,900	1,712	1,175

	For the Years Ended December 31,		
	2013	2012	2011
		(in million pesos)	
Income Statements:			
Revenues	1,993	138	484
Expenses	1,865	158	249
Other income – net	216	5	16
Net income (loss)	344	(15)	251
Other comprehensive income	–	–	–
Total comprehensive income (loss)	344	(15)	251

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2013 and 2012, and January 1, 2012.

Investments in Joint Ventures

Investment in Beacon

On March 1, 2010, PCEV, Metro Pacific Investments Corporation, or MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers.

Beacon is merely a special purpose vehicle created for the main purpose of holding and investing in Meralco using the same Meralco shares as collateral for funding such additional investment. The OA entered into by Beacon, PCEV and MPIC effectively delegates the decision making power of Beacon over the Meralco shares to PCEV and MPIC and that Beacon does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote on the Meralco shares strictly in accordance with the instructions of PCEV and MPIC. Significant influence over the relevant financing and operating activities of Meralco is exercised at the respective board of directors of PCEV and MPIC.

PCEV accounts for its investment in Beacon as investment in joint venture since the OA establishes joint control over Beacon.

Beacon's Capitalization

Beacon's authorized capital stock of Php5,000 million consists of 3,000 million common shares with a par value of Php1 per share and 2,000 million preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash as further discussed below in "Transfer of Meralco Shares to Beacon" section below for further information.

PCEV likewise subscribed to 1,156.5 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154.2 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

Transfer of Meralco Shares to Beacon

Alongside the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154.2 million and 163.6 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154.2 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

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

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

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php29,625 million, Php20,801 million and Php16,593 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

PCEV's Additional Investment in Beacon

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

Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million of its investment in Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million which took effect on June 29, 2012. In this instance, the Beacon preferred shares was sold to an entity not included in PLDT Group. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon. The carrying value of PCEV's investment in Beacon's preferred shares, amounting to Php5,440 million and Php6,991 million was presented as part of available-for-sale financial investments in our consolidated statements of financial position as at December 31, 2012 and January 1, 2012, respectively.

Change in View and Purpose of Investment in Beacon Preferred Shares

On October 30, 2013, PCEV's Board of Directors approved the change in view and purpose of investment in Beacon preferred shares, from investment available-for-sale to strategic investment intended to generate safe and steady returns which PCEV intends to hold on to in the long-term, similar to its investment in common shares. As a result, investment in Beacon preferred shares was reclassified from available-for-sale investments to investment in joint venture (both are noncurrent assets). The carrying value of PCEV's investment in Beacon preferred shares amounted to Php6,250 million as at December 31, 2013.

Beacon's Acquisition of Additional Meralco Shares

A summary of Beacon's purchases of Meralco shares are shown below:

Date	Beneficial Ownership	Number of Shares	Nominal Value Per Share	Aggregate Cost*
		(in millions, except for nominal value per share)		
Various dates in 2011	4.40%	49.9	Php-	Php14,310.0
January 2012	2.70%	30.0	295	9,103.8
November 2012	0.30%	3.2	263	841.7
December 2012	0.03%	0.3	249	89.5
July 19, 2013	0.89%	10.0	270	2,728.0
July 30, 2013	0.74%	8.3	291	3,207.0

* Inclusive of transaction costs.

As at December 31, 2013, Beacon effectively owned 563 million Meralco common shares representing approximately 49.96% effective ownership in Meralco with a carrying value of Php123,322 million and market value of Php141,313 million based on quoted price of Php251 per share. As at December 31, 2012, Beacon effectively owned 545 million Meralco common shares representing approximately 48% effective ownership in Meralco with a carrying value of Php113,934 million and market value of Php142,245 million based on quoted price of Php261 per share. As at January 1, 2012, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of Php104,092 million and market value of Php126,379 million based on quoted price of Php247 per share.

Beacon Financing

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost of Php168.5 million) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to Php17,441 million and Php17,835 million as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on March 27, 2013.

On May 24, 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility as at January 1, 2012 amounting to Php4,000 million was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The remaining Php7,000 million was subsequently drawn on July 9, 2012 and used for the payment of the final tranche of the deferred purchase made in May 2011. The outstanding balance of the facility amounted to Php10,780 million, Php10,856 million and Php3,897 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC. The outstanding balance of the facility amounted to Php5,000 million as at December 31, 2012. The loan was prepaid in full on August 1, 2013.

On February 6, 2013, Beacon entered into a Php17,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php18,000 million ten-year Corporate Notes Facility under a Facility Agreement dated March 22, 2010. The loan facility is divided into two tranches with the first tranche amounting to Php2,285 million (the "Tranche A") and the second tranche amounting to Php14,715 million (the "Tranche B").

Both tranches have a term of ten years with semi-annual interest and principal payments starting May 27, 2013 with final repayment on March 27, 2023. The Tranche A bears a fixed interest rate based on the ten-year PDST-F plus a spread, subject to a floor rate. The Tranche B bears a fixed interest rate for the first five years from the Drawdown Date based on the five-year PDST-F plus a spread, subject to a floor rate. For the next five years, the fixed interest rate for Tranche B will be repriced based on the five-year PDST-F on the Business Day immediately preceding the Repricing Date plus a spread, provided that such interest rate shall not be lower than the applicable interest rate for the first five years. The outstanding balance of the facility amounted to Php16,872 million as at December 31, 2013.

On May 27, 2013, Beacon entered into a Forward Starting Interest Rate Swap, or Forward Starting IRS, to hedge the interest repricing risk on the outstanding balance of the Tranche B (Php14,715 million) by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e., benchmark rate and fixing date). The hedge is expected to be highly effective and such as Beacon designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon's other comprehensive income (loss) reserve account.

On July 29, 2013, Beacon entered into a Php9,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php5,000 million ten-year corporate notes facility under a Facility Agreement dated November 9, 2011 and to partially finance the acquisition of the additional 18.3 million Meralco common shares. This facility was fully drawn on August 1, 2013 with semi-annual interest and principal payments starting July 31, 2013 with final repayment on July 31, 2023. The loan facility is divided into two tranches with the first tranche amounting to Php2,950 million (the "Tranche A") and the second tranche amounting to Php6,050 million (the "Tranche B"). The outstanding balance of the facility amounted to Php8,933 million as at December 31, 2013.

On August 13, 2013, Beacon availed of two short-term notes from local banks, each with a principal sum of Php200 million. Both notes bear interest at a fixed rate equivalent to the higher of 4.5% per annum and the Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Agreement Rate prevailing on the interest setting date plus 1%. Both notes were paid in full on November 13, 2013.

The above facilities were secured by a pledge over the Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated long-term debt.

Investment of SeMI in MPS

In June 2010, SeMI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SeMI and MasterCard Asia, respectively. On November 9, 2010, SeMI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SeMI, respectively. On April 25, 2012, SeMI remitted the amount of US\$2 million representing the 60% payment for the additional shares allotted to SeMI. On August 23, 2012, the balance of US\$1 million representing the 40% of the remaining additional shares was paid.

On March 26, 2012, SeMI entered into a licensing agreement with MasterCard Asia to accept and process MasterCard Asia's debit and credit card transactions of accredited merchants. SeMI became the first non-bank institution in the country to be granted an acquiring license by MasterCard Asia.

On November 21, 2013, SeMI and MasterCard Asia executed a Stock Purchase Agreement wherein SeMI sold all of its shares in MPS totaling to approximately 6 million shares to MasterCard Asia for a purchase price of US\$1.00. On the same date, both companies executed a Settlement Agreement wherein MPS agreed to settle its outstanding payables to SeMI as at August 31, 2013, after deducting SeMI's 40% share in the net liabilities of MPS. The net settlement amount as at the cut-off date amounted to US\$2.18 million. However, SeMI shall continue to be a supplier of MPS by virtue of their independent Contractor Services Agreement.

The carrying values of SeMI's investment in MPS amounted to nil as at December 31, 2013 and January 1, 2012, and Php54 million as at December 31, 2012.

Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% equity interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million each as at December 31, 2013 and 2012, and January 1, 2012. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at December 31, 2013 and 2012, and January 1, 2012.

Summarized Financial Information of Joint Ventures

The table below presents the summarized financial information of Beacon as at December 31, 2013 and 2012, and January 1, 2012 and for the years ended December 31, 2013, 2012 and 2011:

	As at December 31,		As at January 1,
	2013	2012	2012
	(in million pesos)		
Statements of Financial Position:			
Noncurrent assets	124,717	113,934	103,960
Current assets	686	2,149	1,528
Equity	87,664	80,914	72,393
Noncurrent liabilities	35,556	32,896	21,732
Current liabilities	2,183	2,273	11,363
Additional Information:			
Cash and cash equivalents	683	2,146	1,472
Current financial liabilities*	936	374	7,819
Noncurrent financial liabilities*	35,195	32,896	21,225

* Excluding trade, other payables and provisions.

	For the Years Ended December 31,		
	2013	2012	2011
	(in million pesos)		
Income Statements:			
Revenues - equity share in net earnings	8,017	7,359	4,832
Expenses	170	141	10
Interest income	28	94	37
Interest expense	2,369	2,570	1,932
Net income	5,450	4,396	2,850
Other comprehensive income	1,817	-	-
Total comprehensive income	7,267	4,396	2,850

The following table presents the reconciliation between the share in Beacon's equity and the carrying value of investment in Beacon as at December 31, 2013 and 2012, and January 1, 2012:

	December 31,		January 1,
	2013	2012	2012
	(in million pesos)		
Beacon's equity	87,664	80,887	72,393
Less: Cumulative dividends to preferred shares	(1,620)	-	-
Preferred shares	(23,146)	(23,146)	(23,146)
Net assets attributable to common shares	62,898	57,741	49,247
PCEV's ownership interest	50%	50%	50%
Share in net assets of Beacon	31,449	28,871	24,624
Carrying value of investment in preferred shares	6,250	-	-
Purchase price allocation adjustments	(39)	(23)	16
Deferred gain on transfer of Meralco shares	(8,047)	(8,047)	(8,047)
Others	12	-	-
Carrying amount of interest in Beacon	29,625	20,801	16,593

The following table presents our aggregate share in the summarized financial information of our investments in individually immaterial joint ventures as at December 31, 2013 and 2012, and January 1, 2012 and for the years ended December 31, 2013, 2012 and 2011:

	As at December 31,		As at January 1,
	2013	2012	2012
(in million pesos)			
Statements of Financial Position:			
Noncurrent assets	–	4	5
Current assets	4	83	58
Equity	4	50	13
Current liabilities	–	37	50
	For the Years Ended December 31,		
	2013	2012	2011
(in million pesos)			
Income Statements:			
Revenues	–	72	34
Expenses	1	72	76
Other expenses – net	–	104	84
Net loss	1	104	126
Other comprehensive income	–	–	–
Total comprehensive loss	1	104	126

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2013 and 2012, and January 1, 2012.

11. Investment in Debt Securities and Other Long-term Investments

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
(in million pesos)			
Beta's preferred shares (Note 10)	1,862	–	–
PSALM Bond	321	–	–
Security Bank Corporation, or Security Bank, Time Deposits	310	205	–
GT Capital Bond	150	–	–
Rizal Commercial Banking Corporation, or RCBC, Note	–	150	150
National Power Corporation, or NAPOCOR, Zero Coupon Bond	–	–	358
	2,643	355	508
Less current portion (Note 27)	–	150	358
Noncurrent portion (Note 27)	2,643	205	150

Investment in Beta's Preferred Shares

See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment of PGIC in Beta for the detailed discussion of our investment.

PSALM Bond

In April 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon of 7.25% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the effective interest rate method. Interest income recognized on the PSALM Bond amounted to Php9 million for the year ended December 31, 2013.

In August 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php100 million maturing on April 22, 2015 with yield-to-maturity at 3.25% gross. The bond has a gross coupon of 6.875% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the effective interest rate method. Interest income recognized on the PSALM Bond amounted to Php2 million for the year ended December 31, 2013.

Security Bank Time Deposits

In October 2012, PLDT and Smart invested US\$2.5 million each in a five-year time deposit with Security Bank maturing on October 11, 2017 at a gross coupon rate of 4%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Foreign exchange gain of Php7 million and foreign exchange loss of Php1 million was recognized as at December 31, 2013 and 2012, respectively. Interest income (net of withholding tax) recognized on the time deposits amounted to US\$282 thousand, or Php12 million, and US\$42 thousand, or Php2 million, for the years ended December 31, 2013 and 2012, respectively.

In May 2013, PLDT invested US\$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposit amounted to US\$38 thousand, or Php2 million, for the year ended December 31, 2013.

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with a face value of Php150 million, maturing on February 27, 2020. The bond has a gross coupon of 4.8371% payable on a quarterly basis, and was recognized as held-to-maturity investment. Interest income, net of withholding tax, recognized on the GT Capital Bond amounted to Php5 million for the year ended December 31, 2013.

RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC early redeemed its Tier 2 Note with face value of Php150 million and interest payment of Php2 million on February 22, 2013 pursuant to the exercise of Redemption at the Option of the Issuer and as approved by the Bangko Sentral ng Pilipinas. Interest income recognized on the RCBC Note amounted to Php1.2 million for the year ended December 31, 2013 and Php8 million in each of the years ended December 31, 2012 and 2011.

NAPOCOR Zero Coupon Bond

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, that matured on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php23 million in each of the years ended December 31, 2012 and 2011.

12. Investment Properties

Changes in investment properties account for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(in million pesos)	
Balance at beginning of the year	712	1,115
Transfers from (to) property, plant and equipment – net (Note 9)	431	(289)
Net gains from fair value adjustments charged to profit or loss ⁽¹⁾ (Note 3)	79	21
Disposals	–	(135)
Balance at end of the year (Note 3)	1,222	712

⁽¹⁾ Presented as part of "Other income – net" in our consolidated income statement.

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. None of our investment properties are being leased to third parties that earn rental income.

The valuation for land was based on market approach valuation technique using price per square meter ranging from Php8 to Php154 thousand. The valuation for building and land improvements were based on cost approach valuation technique using current material and labor costs for improvements based on external and independent reviewers.

We have determined that the highest and best use of some of the idle or vacant land properties at the measurement date would be to convert the properties for residential or commercial development. For strategic reasons, the properties are not being used in this manner.

We have no restrictions on the realizability of our investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Repairs and maintenance expenses related to investment properties that do not generate rental income amounted to Php57 million, Php54 million and Php70 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The above investment properties were categorized under Level 3 fair value hierarchy. There were no transfers in and out of Level 3 fair value hierarchy.

Significant increases (decreases) in price per square meter for land and current material and labor costs of improvements would result in a significantly higher (lower) fair value measurement.

13. Business Combinations

2012 Acquisitions

ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT, IPVI and IEI entered into a Sale and Purchase Agreement whereby IPVI and IEI sold its 100% ownership in IPCDSI to ePLDT for a purchase price of Php728 million and Php72 million shareholder advances subject to closing adjustments as at the date of acquisition and additional consideration if the EBITDA valuation exceeds Php140 million. The final purchase price, after adjustments on retention payable and escrow amount, amounted to Php621 million.

IPCDSI owns and operates two internet data centers in the country and provides enterprises with managed data services and cloud-based business solutions across a wide range of industries including IT solutions providers, gaming companies, e-learning and healthcare. IPCDSI is the country's first and only Salesforce.com Cloud Alliance Partner providing Salesforce CRM licenses and consulting services to businesses. In addition, IPCDSI is also the country's premier Google Enterprise Partner, allowing local organizations to adopt a cloud computing mindset and to ThinkOutCloud™. Our investment in IPCDSI allows us to complete our multi-tiered data center product suite and expand our cloud solutions business. See *Note 2 – Summary of Significant Accounting Policies – ePLDT's Acquisition of IPCDSI*.

The fair value of the identifiable assets and liabilities of IPCDSI at the date of acquisition are as follows:

	Fair Values Recognized on Acquisition
	(in million pesos)
Assets:	
Property, plant and equipment (Note 9)	267
Intangible assets (Note 14)	2
Other noncurrent assets	7
Cash and cash equivalents	14
Trade and other receivables	159
Prepayments and other current assets	30
	479

	Fair Values Recognized on Acquisition
	(in million pesos)
Liabilities:	
Long-term debt	26
Obligations under finance lease	18
Other noncurrent liabilities	43
Accounts payable	212
Accrued expenses and other current liabilities	20
	319
Total identifiable net assets acquired	160
Goodwill from the acquisition (Note 14)	461
Purchase consideration transferred	621
Cash flows from investing activity:	
Net cash acquired with subsidiary	14
Cash paid	(621)
Purchase of subsidiary – net of cash acquired	(607)

The valuation of IPCDSI's net assets, which was initially based on a provisional assessment of fair value, was completed in 2013 and the final value of goodwill decreased by Php113 million to Php461 million as a result of adjustments in the final purchase price to Php621 million from the initial purchase price of Php734 million. The 2012 comparative information were no longer restated to reflect the adjustments and instead were accounted for as current year adjustments since resulting adjustment is not material.

The fair value and gross amount of trade and other receivables amounted to Php159 million and Php196 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php37 million.

The goodwill of Php461 million pertains to the fair value of IPCDSI's data center business, which includes operations of data centers, managed data services and cloud-based business solutions across a wide range of industries. The intangible assets of Php2 million pertain to the fair value of IPCDSI's customer list and licenses.

Our consolidated revenues and net income would have increased by Php228 million and Php24 million, respectively, for the year ended December 31, 2012 had the acquisition of IPCDSI actually taken place on January 1, 2012. Total revenues and net income of IPCDSI included in our consolidated income statement from October 12 to December 31, 2012 amounted to Php206 million and Php32 million, respectively.

14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2013 and 2012 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Definite Life					Total Intangible Assets with Definite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
		Customer List	Franchise	Licenses	Spectrum	Others				
(in million pesos)										
December 31, 2013										
Costs:										
Balance at beginning of the year	4,505	4,726	3,016	135	1,205	1,177	10,259	14,764	62,939	77,703
Additions	-	-	-	801	-	-	801	801	-	801
Business combinations (Note 13)	-	-	-	-	-	-	-	-	(113)	(113)
Translation and other adjustments	-	-	-	-	-	22	22	22	-	22
Balance at end of the year	4,505	4,726	3,016	936	1,205	1,199	11,082	15,587	62,826	78,413
Accumulated amortization and impairment:										
Balance at beginning of the year	-	722	217	62	669	1,084	2,754	2,754	699	3,453
Amortization during the year (Note 3)	-	515	186	225	81	13	1,020	1,020	-	1,020
Translation and other adjustments	-	-	-	-	-	22	22	22	-	22
Balance at end of the year	-	1,237	403	287	750	1,119	3,796	3,796	699	4,495
Net balance at end of the year (Note 3)	4,505	3,489	2,613	649	455	80	7,286	11,791	62,127	73,918
Estimated useful lives (in years)	-	1 – 9	16	1 – 18	15	1 – 10	-	-	-	-
Remaining useful lives (in years)	-	7	14	1 – 9	6	1 – 6	-	-	-	-

	Intangible Assets with Indefinite Life	Intangible Assets with Definite Life					Total Intangible Assets with Definite Life	Total Intangible Assets	Total Goodwill and Intangible Assets	
	Trademark	Customer List	Franchise	Licenses	Spectrum	Others		Goodwill		
(in million pesos)										
December 31, 2012										
Costs:										
Balance at beginning of the year	4,505	6,231	3,016	120	1,205	1,211	11,783	16,288	74,322	90,610
Business combinations (Note 13)	-	1	-	1	-	-	2	2	574	576
Noncontrolling interest adjustments (Note 13)	-	-	-	-	-	-	-	-	(919)	(919)
Discontinued operations (Note 2)	-	(1,691)	-	-	-	(20)	(1,711)	(1,711)	(10,097)	(11,808)
Translation and other adjustments	-	185	-	14	-	(14)	185	185	(941)	(756)
Balance at end of the year	4,505	4,726	3,016	135	1,205	1,177	10,259	14,764	62,939	77,703
Accumulated amortization and impairment:										
Balance at beginning of the year	-	1,360	-	41	589	1,095	3,085	3,085	4,222	7,307
Amortization during the year (Note 3)	-	778	217	7	80	19	1,101	1,101	-	1,101
Discontinued operations (Note 2)	-	(1,338)	-	-	-	(19)	(1,357)	(1,357)	(3,418)	(4,775)
Translation and other adjustments	-	(78)	-	14	-	(11)	(75)	(75)	(105)	(180)
Balance at end of the year	-	722	217	62	669	1,084	2,754	2,754	699	3,453
Net balance at end of the year (Note 3)	4,505	4,004	2,799	73	536	93	7,505	12,010	62,240	74,250
Estimated useful lives (in years)	-	1-9	16	1-18	15	1-10	-	-	-	-
Remaining useful lives (in years)	-	1-8	15	2-10	7	3-7	-	-	-	-

The goodwill and intangible assets of our reportable segments as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31, 2013			
	Wireless	Fixed Line	Total	
(in million pesos)				
Trademark	4,505	-	4,505	
Customer list	3,489	-	3,489	
Franchise	2,613	-	2,613	
Licenses	649	-	649	
Spectrum	455	-	455	
Others	80	-	80	
Total intangible assets	11,791	-	11,791	
Goodwill	57,322	4,805	62,127	
Total intangible assets and goodwill (Note 3)	69,113	4,805	73,918	
	December 31, 2012			
	Wireless	Fixed Line	Total	
(in million pesos)				
Trademark	4,505	-	4,505	
Customer list	4,003	1	4,004	
Franchise	2,799	-	2,799	
Spectrum	536	-	536	
Licenses	73	-	73	
Others	93	-	93	
Total intangible assets	12,009	1	12,010	
Goodwill	57,322	4,918	62,240	
Total intangible assets and goodwill (Note 3)	69,331	4,919	74,250	
	January 1, 2012			
	Wireless	Fixed Line	Discontinued Operations	Total
(in million pesos)				
Customer list	4,605	-	266	4,871
Trademark	4,505	-	-	4,505
Franchise	3,016	-	-	3,016
Spectrum	616	-	-	616
Licenses	79	-	-	79
Others	108	-	8	116
Total intangible assets	12,929	-	274	13,203
Goodwill	57,140	5,263	7,697	70,100
Total intangible assets and goodwill (Note 3)	70,069	5,263	7,971	83,303

Intangible Assets

In April 2013, Smart entered into a three-year licensing agreement with MCA Music, Inc., an affiliate of the Universal Music Group, the world's largest music company with wholly-owned record operations in 77 countries. Smart recognized intangible assets of Php600 million for the license contents and marketing partnership in the Philippines, while amortization amounted to Php150 million for the year ended December 31, 2013.

In July 2013, Smart entered into an 18-month licensing agreement with Ivory Music and Video, Inc., a domestic corporation and one of the major labels in the Philippine music industry. Smart recognized intangible assets of Php201 million for the license contents and marketing partnership, while amortization amounted to Php67 million for the year ended December 31, 2013.

The consolidated future amortization of intangible assets with definite life as at December 31, 2013 is as follows:

Year	(in million pesos)
2014	1,133
2015	998
2016	848
2017	798
2018 and onwards	3,509
(Note 3)	7,286

Impairment Testing of Goodwill and Intangible Assets with Indefinite Life

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed line and wireless segments. As at December 31, 2013, the PLDT Group's goodwill comprised of goodwill resulting from ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, CURE in 2008, and Smart's acquisition of SBI in 2004. The test for recoverability of the PLDT's and Smart's goodwill was applied to the fixed line and wireless asset group, respectively, which represent the lowest level within our business at which we monitor goodwill.

Although revenue streams may be segregated among the companies within the Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. In the case of CURE, it provided cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which is composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries shared the same facilities to leverage on a Group perspective.

Given the significant common use of network facilities among fixed line and wireless companies within the Group, Management views that the wireless and fixed line operating segments are the lowest CGU to which goodwill is to be allocated and which are expected to benefit from the synergies.

The recoverable amount of the wireless and fixed line segments had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a three-year period from 2014 to 2016. The pre-tax discount rate applied to cash flow projections is 11% and 10% for the wireless and fixed line segments, respectively. Cash flows beyond the three-year period are determined using a 2.5% growth rate for the wireless and fixed line segments, which is the same as the long-term average growth rate for the telecommunications industry.

Based on the assessment of the value-in-use of the wireless and fixed line segments, the recoverable amount of goodwill exceeded the carrying amount of the CGUs, which as a result, no impairment was recognized as at December 31, 2013 and 2012, and January 1, 2012 in relation to goodwill resulting from the acquisition of IPCDSI, Digitel, ePDS, PDSI, Chikka, CURE and SBI.

15. Cash and Cash Equivalents

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Cash on hand and in banks (Note 27)	5,938	5,611	4,637
Temporary cash investments (Note 27)	25,967	31,550	41,420
	31,905	37,161	46,057

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 27 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php740 million, Php1,295 million and Php1,317 million for the years ended December 31, 2013, 2012 and 2011, respectively.

16. Trade and Other Receivables

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of receivables from:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Retail subscribers (Note 27)	12,563	10,568	11,302
Corporate subscribers (Notes 24 and 27)	7,904	8,100	9,200
Foreign administrations (Note 27)	5,840	4,960	4,961
Domestic carriers (Notes 24 and 27)	1,461	1,707	1,323
Dealers, agents and others (Notes 24 and 27)	4,320	4,334	4,231
	32,088	29,669	31,017
Less allowance for doubtful accounts (Notes 3, 5 and 27)	14,524	13,290	14,772
	17,564	16,379	16,245

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the Group.

Trade receivables are non interest-bearing and are generally on terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see *Note 24 – Related Party Transactions*.

See *Note 24 – Related Party Transactions* for the summary of transactions with related parties and *Note 27 – Financial Assets and Liabilities – Credit Risk* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012 are as follows:

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
(in million pesos)						
December 31, 2013						
Balance at beginning of the year	13,290	6,489	6,137	99	106	459
Provisions (Notes 2, 3, 4 and 5)	3,171	1,983	1,072	10	19	87
Write-offs	(2,085)	(1,394)	(666)	–	(24)	(1)
Translation and other adjustments	148	71	(694)	10	(21)	782
Balance at end of the year	14,524	7,149	5,849	119	80	1,327
Individual impairment	8,717	2,134	5,183	119	80	1,201
Collective impairment	5,807	5,015	666	–	–	126
	14,524	7,149	5,849	119	80	1,327
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,717	2,134	5,183	119	80	1,201
December 31, 2012						
Balance at beginning of the year	14,772	7,264	6,492	199	111	706
Provisions (Notes 2, 3, 4 and 5)	2,178	1,404	675	6	7	86
Business combinations and others (Note 13)	36	–	36	–	–	–
Discontinued operations (Note 2)	(118)	(2)	(87)	–	–	(29)
Write-offs	(3,564)	(2,700)	(531)	(95)	–	(238)
Translation and other adjustments	(14)	523	(448)	(11)	(12)	(66)
Balance at end of the year	13,290	6,489	6,137	99	106	459
Individual impairment	8,705	2,653	5,514	99	106	333
Collective impairment	4,585	3,836	623	–	–	126
	13,290	6,489	6,137	99	106	459
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,705	2,653	5,514	99	106	333

17. Inventories and Supplies

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
(in million pesos)			
Terminal and cellular phone units:			
At net realizable value	2,550	1,605	1,349
At cost	3,004	1,942	1,728
Spare parts and supplies:			
At net realizable value	99	1,372	1,606
At cost	558	1,985	2,256
Others:			
At net realizable value	515	490	872
At cost	560	494	875
Total inventories and supplies at the lower of cost or net realizable value (Notes 3, 4 and 5)	3,164	3,467	3,827

The cost of inventories and supplies recognized as expense for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
(in million pesos)			
Cost of sales	11,674	8,035	2,037
Repairs and maintenance	474	443	517
Write-down of inventories and supplies (Notes 3, 4 and 5)	229	215	143
	12,377	8,693	2,697

18. Prepayments

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
	(As Adjusted – Note 2)		
		(in million pesos)	
Prepaid taxes (Note 5)	6,456	6,340	8,219
Prepaid selling and promotions	1,370	902	907
Prepaid fees and licenses	435	318	13
Prepaid rent – net (Note 3)	292	246	137
Prepaid benefit costs (Notes 3 and 25)	199	1,471	8,482
Prepaid insurance (Note 24)	103	144	156
Other prepayments	230	223	128
	9,085	9,644	18,042
Less current portion of prepayments	6,054	5,144	6,345
Noncurrent portion of prepayments	3,031	4,500	11,697

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 25 – Employee Benefits*.

Agreement of PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. Total prepayment under the advertising placement agreements amounted to Php868 million as at December 31, 2013 and Php893 million each as at December 31, 2012 and January 1, 2012. See *Note 24 – Related Party Transactions*.

19. Equity

PLDT's number of shares of issued and outstanding capital stock as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
	(in millions)		
Authorized			
Non-Voting Serial Preferred Stock	388	808	808
Voting Preferred Stock	150	150	–
Common Stock	234	234	234
Issued			
Non-Voting Serial Preferred Stock	36	36	442
Voting Preferred Stock	150	150	–
Common Stock	219	219	217
Outstanding			
Non-Voting Serial Preferred Stock	36	36	442
Voting Preferred Stock	150	150	–
Common Stock	216	216	214
Treasury Stock			
Common Stock	3	3	3

Changes in PLDT's issued capital account for the years ended December 31, 2013, 2012 and 2011 are as follows:

	Non-Voting Preferred Stock – Php10 par value per share		Voting Preferred Stock – Php1 par value per share	Total Preferred Stock		Common Stock – Php5 par value per share	
	Series A to II	IV	Voting			Number of Shares	Amount
	Number of Shares			(in millions)		Number of Shares	Amount
Balances as at January 1, 2013	-	36	150	186	Php510	219	Php1,093
Issuance	-	-	-	-	-	-	-
Conversion	-	-	-	-	-	-	-
Redemption	-	-	-	-	-	-	-
Balances as at December 31, 2013	-	36	150	186	Php510	219	Php1,093
Balances as at January 1, 2012	406	36	-	442	Php4,419	217	Php1,085
Issuance	-	-	150	150	150	2	8
Conversion	(3)	-	-	(3)	(30)	-	-
Redemption	(403)	-	-	(403)	(4,029)	-	-
Balances as at December 31, 2012	-	36	150	186	Php510	219	Php1,093
Balances as at January 1, 2011	406	36	-	442	Php4,419	189	Php947
Issuance	-	-	-	-	2	28	138
Conversion	-	-	-	-	(2)	-	-
Balances as at December 31, 2011	406	36	-	442	Php4,419	217	Php1,085

Preferred Stock

Non-Voting Serial Preferred Stocks

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the PLDT Subscriber Investment Plan, or SIP.

The Series HH and II 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2013 was Php5.00 each per share. The number of shares of Common Stock issuable at any time upon conversion of 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

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

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

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

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

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

Voting Preferred Stock

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2013. See *Note 1 – Corporate Information* and *Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition*.

Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the SIP Preferred Shares, and all such shares were redeemed and retired effective on January 19, 2012, or the Redemption Date. The record date for the determination of the holders of outstanding SIP Preferred Shares subject to Redemption, or Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

PLDT has set aside Php5.9 billion (the amount required to fund the redemption price for the SIP Preferred Shares) in addition to Php2.3 billion for unclaimed dividends on SIP Preferred Shares, or a total amount of Php8.2 billion, to fund the redemption of the SIP Preferred Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of RCBC, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund or any balance thereof, in trust, for the benefit of Holders of SIP Preferred Shares, for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php63 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php353 million was withdrawn from the Trust Account, representing total payments on redemption as at December 31, 2013. The balance of the Trust Account of Php7,952 million was presented as part of the current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position as at December 31, 2013. See *Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – Financial Assets and Liabilities*.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007 effective on May 16, 2013. The record date for purpose of determining the holders of the outstanding Series HH shares issued in 2007 subject to redemption, or Holders of Series HH Shares issued in 2007, was fixed on February 14, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the Holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2012, or the Redemption Price of Series HH Shares issued in 2007.

On January 28, 2014, the Board of Directors authorized/approved the redemption of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008, which will be effective on May 16, 2014. The record date for the purpose of determining the holders of the outstanding Series HH Shares issued in 2008 subject to redemption was fixed on February 14, 2014.

PLDT expects to similarly redeem the outstanding shares of Series II 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

Common Stock

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our core EPS, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2013 and 2012, and January 1, 2012.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

Decrease in Authorized Capital Stock

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 387.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (2) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. On October 3, 2013, the Philippine SEC approved the decrease in authorized capital stock and amendments to the Articles of Incorporation of PLDT.

Dividends Declared

Our dividends declared for the years ended December 31, 2013, 2012 and 2011 are detailed as follows:

December 31, 2013

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series HH	April 23, 2013	May 9, 2013	May 31, 2013	1.00	–
Series HH (Final Dividends)	April 23, 2013	February 14, 2013	May 16, 2013	0.0027/day	–
Series II	April 23, 2013	May 9, 2013	May 31, 2013	1.00	–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 29, 2013	February 28, 2013	March 15, 2013	–	12
	May 7, 2013	May 27, 2013	June 15, 2013	–	13
	August 7, 2013	August 23, 2013	September 15, 2013	–	12
	November 5, 2013	November 20, 2013	December 15, 2013	–	12
					49

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
Voting Preferred Stock	March 5, 2013	March 20, 2013	April 15, 2013	–	3
	June 14, 2013	June 28, 2013	July 15, 2013	–	3
	August 27, 2013	September 11, 2013	October 15, 2013	–	2
	December 3, 2013	December 19, 2013	January 15, 2014	–	2
					10
Common Stock					
Regular Dividend	March 5, 2013	March 19, 2013	April 18, 2013	60.00	12,963
	August 7, 2013	August 30, 2013	September 27, 2013	63.00	13,611
Special Dividend	March 5, 2013	March 19, 2013	April 18, 2013	52.00	11,235
					37,809
Charged to retained earnings					37,868

* Dividends were declared based on total amount paid up.

December 31, 2012

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series GG	January 31, 2012	February 29, 2012	March 30, 2012	1.00	–
Series GG (Final Dividends)	July 3, 2012	May 22, 2012	August 30, 2012	0.0027/day	–
Series HH	March 22, 2012	April 21, 2012	May 31, 2012	1.00	–
Series II	March 22, 2012	April 21, 2012	May 31, 2012	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 31, 2012	February 20, 2012	March 15, 2012	–	12
	May 8, 2012	May 28, 2012	June 15, 2012	–	13
	August 7, 2012	August 22, 2012	September 15, 2012	–	12
	November 6, 2012	November 20, 2012	December 15, 2012	–	12
					49
Voting Preferred Stock	December 4, 2012	December 19, 2012	January 15, 2013	0.0001806/day	2
Common Stock					
Regular Dividend	March 6, 2012	March 20, 2012	April 20, 2012	63.00	13,611
	August 7, 2012	August 31, 2012	September 28, 2012	60.00	12,964
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,371
					36,946
Charged to retained earnings					36,997

* Dividends were declared based on total amount paid up.

December 31, 2011

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series CC	January 25, 2011	February 24, 2011	March 31, 2011	1.00	17
Series DD	January 25, 2011	February 10, 2011	February 28, 2011	1.00	3
Series FF	January 25, 2011	February 10, 2011	February 28, 2011	1.00	–
Series GG	January 25, 2011	February 24, 2011	March 31, 2011	1.00	–
Series EE	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series HH	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series A, I, R, W, AA and BB	July 5, 2011	August 3, 2011	August 31, 2011	1.00	128
Series B, F, Q, V and Z	August 2, 2011	September 1, 2011	September 30, 2011	1.00	91
Series E, K, O and U	September 20, 2011	October 7, 2011	October 31, 2011	1.00	44
Series C, D, J, T and X	September 20, 2011	October 20, 2011	November 29, 2011	1.00	57
Series G, N, P and S	November 3, 2011	December 1, 2011	December 29, 2011	1.00	26
Series H, L, M and Y	December 6, 2011	January 3, 2012	January 19, 2012	1.00	42
					408
Final Dividends					
Series A to FF	December 6, 2011	October 10, 2011	January 19, 2012	0.0027/day	142
					550

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 25, 2011	February 18, 2011	March 15, 2011	–	12
	May 10, 2011	May 27, 2011	June 15, 2011	–	12
	August 2, 2011	August 18, 2011	September 15, 2011	–	13
	November 3, 2011	November 18, 2011	December 15, 2011	–	12
					49
Common Stock					
Regular Dividend	March 1, 2011	March 16, 2011	April 19, 2011	78.00	14,567
	August 2, 2011	August 31, 2011	September 27, 2011	78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
					41,460
Charged to retained earnings					42,059

* Dividends were declared based on total amount paid up.

Our dividends declared after December 31, 2013 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 28, 2014	February 27, 2014	March 15, 2014	–	12
Voting Preferred Stock*	March 4, 2014	March 20, 2014	April 15, 2014		3
Common Stock					
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
					25,062
Charged to retained earnings					25,077

* Dividends were declared based on total amount paid up.

Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our retained earnings available for dividend declaration for as at December 31, 2013:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2012 (As Adjusted – Note 2)	25,416
Effect of PAS 27 Adjustments	2,913
Parent Company's unappropriated retained earnings at beginning of the year	28,329
Less: Cumulative unrealized income – net of tax:	
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(1,096)
Fair value adjustments (mark-to-market gains)	(1,132)
Fair value adjustments of investment property resulting to gain	(535)
Unappropriated retained earnings as adjusted at beginning of the year	25,566
Parent Company's net income attributable to equity holders of PLDT for the year	38,784
Less: Unrealized income – net of tax during the year	
Fair value adjustments of investment property resulting to gain	(285)
Fair value adjustments (mark-to-market gains)	(370)
	38,129
Realized income during the year	
Realized foreign exchange gains	432
Cash dividends declared during the year	
Common stocks	(37,809)
Preferred stocks	(59)
	(37,868)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2013	26,259

As at December 31, 2013, the consolidated unappropriated retained earnings amounted to Php22,968 million while the Parent Company's unappropriated retained earnings amounted to Php29,245 million. The difference of Php6,277 million pertains to the accumulated losses of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.

20. Interest-bearing Financial Liabilities

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of the following:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Long-term portion of interest-bearing financial liabilities:			
Long-term debt (Notes 4, 5, 9, 23 and 27)	88,924	102,811	91,273
Obligations under finance leases (Notes 3, 4, 5, 23 and 27)	6	10	7
	88,930	102,821	91,280
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27)	15,166	12,981	22,893
Obligations under finance leases maturing within one year (Notes 3, 4, 5, 23 and 27)	5	8	7
Notes payable (Notes 4, 5, 23 and 27)	-	-	3,109
	15,171	12,989	26,009

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Long-term debt (Note 27)	382	1,323	2,136
Obligation under finance lease	1	3	2
Unamortized debt discount at end of the year	383	1,326	2,138

The following table describes all changes to unamortized debt discount for the years ended December 31, 2013 and 2012.

	2013	2012
	(in million pesos)	
Unamortized debt discount at beginning of the year	1,326	2,138
Revaluations during the year	385	121
Additions during the year	213	121
Accretion during the year included as part of Financing costs – net (Note 5)	(1,541)	(1,053)
Discontinued operations (Note 2)	-	(1)
Unamortized debt discount at end of the year	383	1,326

Long-term Debt

As at December 31, 2013 and 2012, and January 1, 2012, long-term debt consists of:

Description	Interest Rates	December 31,		2012		January 1,	
		2013	2012	2012	2012		
(in millions)							
<i>U.S. Dollar Debts:</i>							
Export Credit Agencies-Supported Loans:							
China Export and Credit Insurance Corporation, or Sinosure	US\$ LIBOR + 0.55% to 1.80% in 2013 and 2012	US\$117	Php5,174	US\$204	Php8,363	US\$248	Php10,879
Exportkreditnamnden, or EKN	1.41% to 3.79% and US\$ LIBOR + 0.30% to 0.35% in 2013 and 1.90% to 3.79% and US\$ LIBOR + 0.30% to 0.35% in 2012	101	4,506	104	4,253	102	4,483
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2013 and 2012	56	2,476	67	2,771	79	3,475
Finnvera, Plc, or Finnvera	2.99% and US\$ LIBOR + 1.35% in 2013 and 2012	25	1,098	44	1,813	63	2,775
Others	US\$ LIBOR + 0.35% to 0.40% in 2013 and 2012	-	17	2	101	6	256
		299	13,271	421	17,301	498	21,868
Fixed Rate Notes	8.35% in 2013 and 8.35% to 11.375% in 2012	233	10,334	232	9,544	377	16,567
Term Loans:							
GSM Network Expansion Facilities	US\$ LIBOR + 0.42% to 1.85% in 2013 and 2012	118	5,251	172	7,041	50	2,201
Debt Exchange Facility	2.25% in 2013 and 2012	-	-	254	10,450	238	10,472
Others	US\$ LIBOR + 0.42% to 1.90% in 2013 and 2012	682	30,276	194	7,962	51	2,222
		US\$1,332	59,132	US\$1,273	52,298	US\$1,214	53,330
<i>Philippine Peso Debts:</i>							
Corporate Notes							
	5.3300% to 7.7946% in 2013 and 5.3300% to 9.1038% in 2012		22,499		40,006		38,510
Term Loans:							
Unsecured Term Loans	3.9250% to 7.4292%, PDST-F + 0.3000% to 0.8000%; BSP overnight rate + 0.3000% to 0.5000% and BSP overnight rate - 0.3500% in 2013 and 4.9110% to 8.6271%, PDST-F + 0.3000% and BSP overnight rate + 0.3000% to 0.5000% in 2012		22,459		23,488		22,277
Secured Term Loans	5.2604% to 5.659%, PDST-F + 1.375% in 2012		-		-		49
			44,958		63,494		60,836
Total long-term debt			104,090		115,792		114,166
Less portion maturing within one year (Note 27)			15,166		12,981		22,893
Noncurrent portion of long-term (Note 27)			Php88,924		Php102,811		Php91,273

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2013 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	In U.S. Dollar	In Php	In Php	In Php
(in millions)				
2014	292	12,969	2,318	15,287
2015	275	12,203	675	12,878
2016	260	11,559	674	12,233
2017	433	19,232	8,210	27,442
2018 and onwards	79	3,491	33,141	36,632
	1,339	59,454	45,018	104,472

U.S. Dollar Debts:

Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

Sinosure

On December 1, 2005, DMPI signed a US\$23.6 million Export Credit Agreement with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders, to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR. The loan is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 1, 2013. The loan was fully drawn on various dates in 2005, 2006 and 2007. The amounts of US\$3 million, or Php138 million, and US\$7 million, or Php296 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on December 2, 2013.

On May 4, 2006, DMPI signed a US\$12.7 million Export Credit Agreement with the Societe Generale and Calyon as the lenders, to finance the supply of the equipment and software for the expansion of its GSM services in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on October 6, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amounts of US\$2 million, or Php77 million, US\$4 million, or Php143 million, and US\$5 million, or Php229 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On June 1, 2006, DMPI signed a US\$12 million Buyer's Credit Agreement with ING Bank N.V., or ING Bank, as the lender, to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 1, 2014. The loan was drawn in 2006 and 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amounts of US\$1 million, or Php31 million, US\$2 million, or Php86 million, and US\$4 million, or Php153 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$21 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$5 million, or Php198 million, US\$7 million, or Php305 million, and US\$10 million, or Php457 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$12.1 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 NCR Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was fully drawn on various dates in 2008. The amounts of US\$3 million, or Php115 million, US\$4 million, or Php178 million, and US\$6 million, or Php266 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$23.8 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Core Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$10 million, or Php452 million, US\$14 million, or Php558 million, and US\$17 million, or Php746 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$5.5 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the supply of 3G network in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php105 million, US\$3 million, or Php129 million, and US\$4 million, or Php172 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$4.9 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php94 million, US\$3 million, or Php116 million, and US\$4 million, or Php155 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On August 14, 2009, DMPI signed a US\$24.7 million loan agreement with Credit Suisse as the lead arranger, to finance the supply of telephone equipment for the Phase 7 NCR Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was fully drawn on various dates in 2009 and 2010. The amounts of US\$18 million, or Php725 million, and US\$21 million, or Php930 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The facility was prepaid in full on February 14, 2013.

On August 14, 2009, DMPI signed a US\$15.9 million loan agreement with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender, to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The amounts of US\$11 million, or Php453 million, and US\$13 million, or Php581 million, remained outstanding as at December 31, 2012 and 2011, respectively. The facility was prepaid in full on February 14, 2013.

On December 16, 2009, DMPI signed a US\$50 million Buyer's Credit Agreement with China Citic Bank Corporation Ltd., or China CITIC Bank, as the original lender, to finance the equipment and related materials for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 17, 2017. The loan was drawn on various dates in 2010 in the total amount of US\$48 million. The undrawn amount of US\$2 million was cancelled. On December 9, 2011, China CITIC Bank and ING Bank signed a Transfer Certificate and Assignment of Guarantee whereby ING Bank took over the debt under the Buyers Credit Agreement. The assignment of debt was completed on December 16, 2011. The amounts of US\$27 million, or Php1,203 million, US\$34 million, or Php1,392 million, and US\$41 million, or Php1,786 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On September 15, 2010, DMPI signed a US\$117.3 million loan agreement with China Development Bank and HSBC as the lenders, to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN; (2) Phase 3 3G; and (3) Phase 8B NCR and SLZ BSS. The loan is covered by a guarantee from Sinosure. The loan is payable over seven and a half years in 15 equal semi-annual installments, with final installment on April 10, 2019. The loan was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amount of US\$20 million was partially prepaid on April 10, 2013 and the remaining balance is now payable over five years in 10 semi-annual installments, with final installment on April 10, 2018. The amounts of US\$65 million, or Php2,899 million, US\$101 million, or Php4,140 million, and US\$116 million, or Php5,108 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

EKN

On April 4, 2006, DMPI signed a US\$18.7 million loan agreement with Nordea Bank AB (publ), or Nordea Bank, as the lender, to finance the supply of GSM mobile telephone equipment and related services. The loan is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amounts of US\$3 million, or Php143 million, US\$5 million, or Php220 million, and US\$7 million, or Php329 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On December 20, 2006, DMPI signed a US\$43.2 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 30, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amounts of US\$3 million, or Php142 million, US\$10 million, or Php393 million, and US\$16 million, or Php700 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On December 17, 2007, DMPI signed a US\$59.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on March 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$59 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$24 million, or Php1,049 million, US\$31 million, or Php1,248 million, and US\$38 million, or Php1,631 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively. See Note 27 – *Financial Assets and Liabilities – Derivative Financial Instruments*.

On December 17, 2007, DMPI signed a US\$51.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on June 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$51.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$20 million, or Php911 million, US\$26 million, or Php1,084 million, and US\$32 million, or Php1,416 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively. See Note 27 – *Financial Assets and Liabilities – Derivative Financial Instruments*.

On November 25, 2008, Smart signed a US\$22 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008, to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 10, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$5 million, or Php195 million, and US\$9 million, or Php414 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on December 10, 2013.

On June 10, 2011, Smart signed a US\$49 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranche A1, Tranche A2 and Tranche B in the amounts of US\$24 million, US\$24 million and US\$1 million, respectively. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 29, 2016 for Tranche A1 and B and October 30, 2017 for Tranche A2. The loan was drawn on various dates in 2012 in the total amount of US\$33 million (US\$24 million for Tranche A1, US\$8 million for Tranche A2 and US\$1 million for Tranche B) and the remaining balance of US\$16 million for Tranche A2 was drawn on February 21, 2013. The aggregate amounts of US\$33 million, or Php1,474 million, and US\$27 million, or Php1,113 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, respectively.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. In July 3, 2013, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranches A1 and A2 in the amounts of US\$25 million and US\$19 million, respectively, and Tranches B1 and B2 in the amounts of US\$0.9 million and US\$0.7 million, respectively. The facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. The loan was partially drawn on December 19, 2013 for Tranche A1 and B1 in the amounts of US\$18 million and US\$0.9 million, respectively. The aggregate amount of US\$18 million, or Php787 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

EKN and SEK

On April 28, 2009, DMPI signed a US\$96.6 million loan agreement with Nordea Bank and ING Bank as the lenders, to finance the supply of GSM mobile telephone equipment and related services. The loan is comprised of Tranche 1 and Tranche 2 in the amounts of US\$43 million and US\$53.6 million, respectively. The loan is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. Both tranches are payable over eight and a half years in 17 equal semi-annual installments, with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amounts of US\$56 million, or Php2,476 million, US\$67 million, or Php2,771 million, and US\$79 million, or Php3,475 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Finnvera, Plc, or Finnvera

On May 14, 2009, Smart signed a US\$50 million term loan facility agreement with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger, to finance the Phase 10 (Extension) GSM equipment and services contract. The loan is payable over five years in ten equal semi-annual installments, with final installment on July 15, 2014. The loan was fully drawn on July 15, 2009. The amounts of US\$10 million, or Php442 million, US\$20 million, or Php811 million, and US\$29 million, or Php1,290 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

On October 9, 2009, Smart signed a US\$50 million term loan facility agreement with FEC guaranteed by Finnvera for 100% political and commercial risk cover to finance GSM equipment and services contracts. The loan was awarded to Citicorp as the arranger which was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual installments, with final installment on April 7, 2015. The loan was fully drawn on April 7, 2010. The amounts of US\$15 million, or Php656 million, US\$24 million, or Php1,002 million, and US\$34 million, or Php1,485 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Others – Export Credit Agencies

Compagnie Francaise d' Assurance pour le Commerce Exterieur, or COFACE

On August 18, 2005, DMPI signed a US\$19 million Export Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project. The loan is covered by a guarantee from COFACE, the export-credit agency of France. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on February 8, 2013. The loan was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The amounts of US\$1 million, or Php53 million, and US\$4 million, or Php171 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on February 8, 2013.

Atradius N.V., or Atradius

On July 3, 2006, DMPI signed a US\$6 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network. The loan is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 27, 2014. The loan was drawn in 2006 and 2007 in the total amount of US\$5.4 million. The undrawn amount of US\$0.6 million was cancelled. The amounts of US\$0.4 million, or Php17 million, US\$1 million, or Php48 million, and US\$2 million, or Php85 million, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Fixed Rate Notes

On March 6, 1997, PLDT issued a US\$300 million 20-year non-amortizing fixed rate note with a coupon rate of 8.350% under the Indenture dated April 19, 1996 between PLDT and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) as trustee ("2017 Notes"). Proceeds from the issuance of these notes were used to finance service improvements and expansion programs. The 2017 Notes will mature on March 6, 2017. On various dates in 2008 to 2010, PLDT repurchased the 2017 Notes from the secondary market in the aggregate amount of US\$65.7 million. The amounts of US\$233 million, or Php10,334 million, US\$232 million, or Php9,544 million, and US\$232 million, or Php10,189 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On May 15, 2002, PLDT issued a US\$250 million ten-year non-amortizing fixed rate note with a coupon rate of 11.375% under the Indenture dated April 1, 1994 between PLDT and JP Morgan Chase Bank (formerly The Chase Manhattan Bank (National Association)) as trustee ("2012 Notes"). Proceeds from the issuance of these notes were used to refinance existing short-term and medium-term debts maturing up to 2005. On various dates in 2008 and 2009, PLDT repurchased the 2012 Notes from the secondary market in the aggregate amount of US\$104.2 million. The amount of US\$145 million, or Php6,378 million, remained outstanding as at January 1, 2012. The 2012 Notes was paid in full on maturity date on May 15, 2012. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

Term Loans

GSM Network Expansion Facilities

On October 16, 2006, Smart signed a US\$50 million term loan facility agreement with Metropolitan Bank and Trust Company, or Metrobank, to finance the related Phase 9 GSM facility. The loan is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date, with final installment on October 10, 2012. The loan was fully drawn on October 10, 2007. The amount of US\$11 million, or Php488 million, remained outstanding as at January 1, 2012. The loan was paid in full on October 10, 2012.

On October 10, 2007, Smart signed a US\$50 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd., or Standard Chartered, as the facility agent, to finance the related Phase 10 GSM equipment and service contracts. The loan is payable over five years in ten equal semi-annual payments, with final installment on March 11, 2013. The loan was fully drawn on March 10, 2008. The amounts of US\$5 million, or Php205 million, and US\$15 million, or Php657 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 11, 2013.

On November 27, 2008, Smart signed a US\$50 million term loan facility agreement with FEC to finance the Phase 10 GSM equipment and service contracts. The loan was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered, Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments, with final installment on January 23, 2014. The loan was fully drawn on various dates in 2009. The amounts of US\$5 million, or Php222 million, US\$15 million, or Php614 million, and US\$25 million, or Php1,090 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively. The loan was paid in full on January 23, 2014.

On June 6, 2011, Smart signed a US\$60 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in eight equal semi-annual installments commencing on the 18th month from signing date, with final installment on June 6, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$38 million, or Php1,665 million, and US\$53 million, or Php2,157 million, remained outstanding as at December 31, 2013 and 2012, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On August 19, 2011, Smart signed a US\$50 million term loan facility agreement with FEC as the lender, to finance the supply contracts for the modernization and expansion project. The loan was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC and Mizuho Corporate Bank, Ltd. The loan is payable over five years in ten equal semi-annual installments commencing six months after August 19, 2012, with final installment on August 19, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$37 million, or Php1,657 million, and US\$50 million, or Php2,040 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On May 29, 2012, Smart signed a US\$50 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, 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 on May 29, 2013, with final installment on May 29, 2017. The loan was fully drawn on various dates in 2012. The amounts of US\$38 million, or Php1,707 million, and US\$49 million, or Php2,025 million, net of unamortized debt discount, remained outstanding as at December 31, 2013 and 2012, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

US\$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for debt and a cash payment by Smart. In particular, Smart paid cash amounting to US\$1.5 million, or Php84 million and issued new debt of US\$283.2 million, or Php15,854 million, with fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million. The loan is payable in full upon maturity on June 30, 2014. The amounts of US\$254 million, or Php10,450 million, and US\$238 million, or Php10,472 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. In September 2013, the loan was prepaid in full and the remaining debt discount of US\$13 million, or Php731 million, was amortized and charged to profit and loss for the year.

Other Term Loans

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for its capital expenditure requirements. The loan is payable over five years in ten equal semi-annual installments. Two separate drawdowns of US\$50 million each were drawn from the facility on March 27, 2008 and April 10, 2008. The amounts of US\$10 million, or Php411 million, and US\$30 million, or Php1,318 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 27, 2013.

On July 15, 2008, PLDT signed a US\$50 million term loan facility agreement with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on July 22, 2013. The loan was fully drawn on various dates in 2008. The amounts of US\$9 million, or Php362 million, and US\$21 million, or Php904 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on July 22, 2013.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017. Two separate drawdowns of US\$100 million and US\$50 million were drawn on May 10, 2012 and September 4, 2012, respectively. The amounts of US\$117 million, or Php5,180 million, and US\$150 million, or Php6,162 million, remained outstanding as at December 31, 2013 and 2012, respectively.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date, with final installment on May 30, 2017. The loan was fully drawn on May 29, 2012. The amounts of US\$21 million, or Php914 million, and US\$25 million, or Php1,027 million, remained outstanding as at December 31, 2013 and 2012, respectively.

On March 23, 2012, SPi signed a US\$15 million term loan facility agreement with Security Bank to finance working capital requirements. The loan is payable over five years in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The loan was fully drawn on March 26, 2012. The amounts of US\$13 million, or Php551 million, has been presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale as at December 31, 2012. The loan was prepaid in full on April 24, 2013. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amount of US\$300 million, or Php13,319 million, remained outstanding as at December 31, 2013. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On January 28, 2013, Smart signed a US\$35 million term loan facility agreement with China Banking Corporation to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amount of US\$31 million, or Php1,398 million, remained outstanding as at December 31, 2013.

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. The amount of US\$18 million was partially drawn on September 16, 2013 and subsequently, the amount of US\$6 million on November 19, 2013. The amount of US\$23 million, or Php1,030 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date, with final installment on May 31, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$72 million, or Php3,197 million, remained outstanding as at December 31, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility will be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date, with final installment on June 20, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$118 million, or Php5,238 million, net of unamortized debt discount, remained outstanding as at December 31, 2013. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

Philippine Peso Debts:

Corporate Notes

Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes were used to finance the capital expenditures for network improvement and expansion program of Smart. The amounts of Php1,152 million and Php4,963 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The Series A note and Series B note were prepaid in full on February 16, 2012 and November 15, 2013, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued Php5,000 million unsecured fixed rate corporate notes. Proceeds from the issuance of these notes were used primarily to finance the capital expenditures for network upgrade and expansion program of Smart. The notes are payable over five years with an annual amortization rate of 1% of the principal amount on the first year up to the fourth year from issue date and the balance payable upon maturity on December 13, 2013. The amounts of Php4,827 million, net of unamortized debt discount, remained outstanding as at January 1, 2012. The facility was prepaid in full on March 12, 2012.

Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the issuance of these notes were used to finance capital expenditures of PLDT. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on February 21, 2014. The Series B notes are payable over seven years with an amortization rate of 1% of the issue price on the fifth year and sixth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year up to the ninth year from issue date and the balance payable upon maturity on February 20, 2019. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amount of Php4,952 million remained outstanding as at January 1, 2012. The notes were prepaid in full on November 20, 2012.

Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A five-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The Series A notes are payable over five years with an annual amortization rate of 2% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 10, 2015. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on December 12, 2016. The Series C notes are payable in full upon maturity on December 10, 2019. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amount of Php6,781 million remained outstanding as at January 1, 2012. The notes were prepaid in full on December 10, 2012.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The notes are non-amortizing and will mature on July 13, 2015. The amount of Php2,500 million each remained outstanding as at December 31, 2012 and January 1, 2012. The notes were prepaid in full on July 15, 2013.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network improvement and expansion program of Smart. The notes are non-amortizing and will mature on July 13, 2015. The amounts of Php2,490 million and Php2,487 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on July 15, 2013.

Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Php2,000 million Notes Facility Agreement with BDO Private Bank, Inc. comprised of Tranche A amounting to Php1,000 million which was issued on March 16, 2011 and Tranche B amounting to Php1,000 million which was fully drawn and issued in multiple drawdowns of Php250 million each on various dates in 2011. Proceeds from the issuance of these notes were used to finance capital expenditures for network improvement and expansion program of Smart. The notes are payable in full, five years from their respective issue dates. The notes were partially prepaid in the amounts of Php1,000 million and Php250 million on December 16, 2013 and December 23, 2013, respectively. The amounts of Php750 million remained outstanding as at December 31, 2013 and Php2,000 million each as at December 31, 2012 and January 1, 2012. The remaining balance was prepaid in full on January 2014.

Php5,000 Million Fixed Rate Corporate Notes

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 25, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 24, 2021. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on March 25, 2013.

Php5,000 Million Fixed Rate Corporate Notes

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A five-year notes amounting to Php2,795 million, Series B seven-year notes amounting to Php230 million and Series C ten-year notes amounting to Php1,975 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on November 9, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2021. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on November 8, 2013.

Php5,500 Million Fixed Rate Corporate Notes

On March 19, 2012, Smart issued Php5,500 million fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten-year notes amounting to Php3,590 million. Proceeds from the issuance of these notes were used primarily for debt refinancing and capital expenditures of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 96% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 91% payable on March 21, 2022. The notes were partially prepaid in the amount of Php1,376 million on July 19, 2013. The aggregate amounts of Php4,069 million and Php5,464 million, remained outstanding as at December 31, 2013 and 2012, respectively.

Php1,500 Million Fixed Rate Corporate Notes

On July 27, 2012, PLDT issued Php1,500 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 29, 2019. The notes were partially prepaid in the amount of Php1,188 million on July 29, 2013. The amounts of Php297 million and Php1,500 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php8,800 Million Fixed Rate Corporate Notes

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated September 19, 2012, comprised of Series A seven-year notes amounting to Php4,610 million and Series B ten-year notes amounting to Php4,190 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. The notes were partially prepaid in the amount of Php2,055 million on June 21, 2013. The aggregate amounts of Php6,678 million and Php8,800 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php6,200 Million Fixed Rate Corporate Notes

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issued price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019. The Series B notes are payable over ten-years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022. The aggregate amounts of Php6,138 million and Php6,200 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php1,376 Million Fixed Rate Corporate Notes

On June 19, 2013, Smart issued Php1,376 million fixed rate corporate notes under a Notes Agreement dated June 14, 2013, comprised of Series A five-year notes amounting to Php742 million and Series B ten-year notes amounting to Php634 million. Proceeds from the issuance of these notes were used primarily for debt refinancing of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 19, 2022. The aggregate amount of Php1,345 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

Php2,055 Million Fixed Rate Corporate Notes

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A notes amounting to Php1,735 million and Series B notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over nine years with an annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022. The aggregate amount of Php2,034 million remained outstanding as at December 31, 2013.

Php1,188 Million Fixed Rate Corporate Notes

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are 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 issue date and the balance upon maturity on July 29, 2019. The amount of Php1,188 million remained outstanding as at December 31, 2013.

Php15,000 Million Fixed Rate Retail Bonds

On February 6, 2014, PLDT issued Php15,000 million SEC-registered fixed rate peso retail bonds under the Indenture dated January 22, 2014. Proceeds from the issuance of these bonds will be used to finance capital expenditures and/or refinance existing obligations which were used for capital expenditures for network and expansion improvement. The amount comprises of Php12,400 million and Php2,600 million bonds due in 2021 and 2024, with a coupon rate of 5.2250% and 5.2813%, respectively.

Term Loans

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Php2,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on November 13, 2013. The loan was fully drawn on November 13, 2008. The amounts of Php624 million and Php1,248 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on November 13, 2013.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a Php2,400 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,400 million. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 12, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php511 million and Php1,022 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on December 12, 2013.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a Php3,000 million term loan facility agreement with Union Bank of the Philippines, or Union Bank, to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php3,000 million. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date, with final installment on December 23, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php667 million and Php1,333 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on December 23, 2013.

Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a Php2,000 million term loan facility agreement with Philippine National Bank, or PNB, to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,000 million. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on December 19, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php470 million and Php941 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on December 19, 2013.

Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a Php2,500 million term loan facility agreement with Banco de Oro Unibank, Inc., or BDO, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The loan was fully drawn on April 17, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 17, 2012.

Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Php1,500 million term loan facility agreement with BDO to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on May 20, 2012. The loan was fully drawn on May 20, 2009. The amounts of Php1,498 million, net of unamortized debt discount, remained outstanding as at January 1, 2012. The loan was paid in full on May 20, 2012.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a Php2,500 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The loan was fully drawn on June 28, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The facility was prepaid in full on September 28, 2012.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a Php1,500 million term loan facility agreement with Allied Banking Corporation to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on September 15, 2010, with final installment on September 15, 2014. The loan was fully drawn on September 15, 2009. The amounts of Php618 million and Php971 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on June 17, 2013.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a Php500 million term loan facility agreement with Insular Life Assurance Company, Ltd. to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on July 1, 2016. The loan was fully drawn on July 1, 2009. The amount of Php500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 1, 2012.

Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Php1,000 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on August 1, 2014. The loan was fully drawn on August 3, 2009. The amounts of Php188 million, Php438 million and Php688 million remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php471 million, Php941 million and Php1,412 million remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a Php1,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php235 million, Php471 million and Php706 million remained outstanding as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Php1,500 Million Term Loan Facility

On March 15, 2011, Smart signed a Php1,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 22, 2016. The amount of Php1,500 million was fully drawn on March 22, 2011 and remained outstanding as at December 31, 2012 and January 1, 2012. The loan was paid in full on December 23, 2013.

Php2,000 Million Term Loan Facility

On March 24, 2011, Smart signed a Php2,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 29, 2016. The loan was fully drawn on March 29, 2011. The loan was partially prepaid on December 28, 2012 in the amount of Php200 million. The amounts of Php1,800 million and Php2,000 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The outstanding principal balance of the loan amounting to Php1,800 million was prepaid in full on December 23, 2013.

Php500 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php500 million term loan facility agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at December 31, 2012 and January 1, 2012. The loan was prepaid in full on June 17, 2013.

Php300 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php300 million term loan facility agreement with the Manulife to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The loan was fully drawn on April 28, 2011. The amount of Php300 million each remained outstanding as at December 31, 2012 and January 1, 2012. The loan was prepaid in full on July 29, 2013.

Php1,000 Million Term Loan Facility

On April 12, 2011, Digitel signed a Php1,000 million term loan facility agreement with Metrobank as the lender, to finance additional capital expenditure requirements. The loan is payable in full upon maturity on June 23, 2016. The loan was partially drawn on various dates in June 2011 in the aggregate amount of Php710 million and the remaining balance was subsequently drawn on June 21, 2012. The amounts of Php1,000 million and Php710 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on September 10, 2013.

Php2,000 Million Term Loan Facility

On April 14, 2011, Digitel signed a Php2,000 million five-year term loan facility agreement with BDO as the lender, to finance the capital expenditures and/or refinance existing loan obligations. The loan is payable in full upon maturity on May 26, 2016. The loan was drawn on various dates in 2011 in the total amount of Php1,948 million and remained outstanding as at December 31, 2012 and January 1, 2012. The undrawn amount of Php52 million was cancelled. The loan was prepaid in full on August 27, 2013.

Php2,000 Million Term Loan Facility

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity on April 12, 2022. The amount of Php2,000 million was fully drawn on April 12, 2012 and remained outstanding as at December 31, 2013 and 2012.

Php3,000 Million Term Loan Facility

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017. The amount of Php3,000 million was fully drawn on July 18, 2012. The amounts of Php2,970 million and Php3,000 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php2,000 Million Term Loan Facility

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity on June 27, 2017. The amount of Php2,000 million was fully drawn on June 27, 2012. The amounts of Php1,980 million and Php2,000 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php1,000 Million Term Loan Facility

On June 7, 2012, Smart signed a Php1,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over five years with an annual amortization rate of 1% of the principal amount commencing on the first anniversary of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017. The amount of Php1,000 million was fully drawn on August 22, 2012. The amounts of Php990 million and Php1,000 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php1,500 Million Term Loan Facility

On June 27, 2012, DMPI signed a Php1,500 million term loan facility agreement with BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The loan is payable over seven years with an annual amortization rate of 1% of the outstanding principal amount on the first year up to the sixth year and the balance payable on June 2019. The amount of Php700 million was partially drawn on June 29, 2012 and the remaining balance of Php800 million was subsequently drawn on September 24, 2012. The amounts of Php1,485 million and Php1,500 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php200 Million Term Loan Facility

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on October 9, 2019. The amount of Php200 million was fully drawn on October 9, 2012. The amount of Php200 million each remained outstanding as at December 31, 2013 and 2012.

Php1,000 Million Term Loan Facility

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on June 13, 2020. The facility was fully drawn on January 11, 2013. The amount of Php1,000 million remained outstanding as at December 31, 2013.

Php1,000 Million Term Loan Facility

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance to 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 December 5, 2022. The amount of Php1,000 million was fully drawn on December 3, 2012. The amount of Php1,000 million each remained outstanding as at December 31, 2013 and 2012.

Php3,000 Million Term Loan Facility

On December 17, 2012, Smart signed a Php3,000 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 anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019. The amount of Php1,000 million was partially drawn on December 20, 2012 and the remaining balance of Php2,000 million was subsequently drawn on March 15, 2013. The amounts of Php2,970 million and Php1,000 million remained outstanding as at December 31, 2013 and 2012, respectively.

Php2,000 Million Term Loan Facility

On November 13, 2013, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations. The loan is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on November 22, 2020. The amount of Php1,000 million was partially drawn on November 22, 2013 and remained outstanding as at December 31, 2013. The loan was fully drawn on February 11, 2014.

Php3,000 Million Term Loan Facility

On November 25, 2013, Smart signed a Php3,000 million term loan facility agreement with Metrobank to refinance existing loan obligations of Smart. The loan is payable over seven years in six annual amortization rate of 10% of the total amount drawn with final installment on November 27, 2020. The amount of Php3,000 million was fully drawn on November 29, 2013. The amount of Php2,985 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

Php3,000 Million Term Loan Facility

December 3, 2013, Smart signed a Php3,000 million term loan facility agreement with BPI to refinance existing loan obligations of Smart. The loan is payable over seven years in six annual amortization rate of 1% of the total amount drawn with final installment on December 10, 2020. The amount of Php3,000 million was fully drawn on December 10, 2013. The amount of Php2,985 million, net of unamortized debt discount, remained outstanding as at December 31, 2013.

Php3,000 Million Term Loan Facility

On January 29, 2014, Smart signed a Php3,000 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 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.

Php500 Million Term Loan Facility

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 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.

Secured Term Loans

Php150 Million Term Loan Facility

On June 7, 2007, AGS obtained a Php150 million medium term loan facility agreement with BPI, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. AGS is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. AGS and the bank has agreed to the following terms: (a) pledge of AGS's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of AGS. The outstanding principal balance of the loan amounting to Php49 million as at January 1, 2012 was paid in full on June 30, 2012.

Notes Payable

Vendor Financing

On January 5, 2006, DMPI issued a US\$1.3 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on February 22, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on February 22, 2012.

On January 5, 2006, DMPI issued a US\$1.2 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on June 28, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on June 28, 2012.

As at January 1, 2012, DMPI has trust receipts with an aggregate outstanding balance of Php1,562 million, which were fully paid as at December 31, 2012.

On April 1, 2011, SPi availed US\$9 million and US\$16 million short-term loans from BPI and Security Bank, respectively. The additional loan of US\$10 million was availed last October 28, 2011 from Security Bank. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month with final installment on December 18, 2012. The loans were prepaid on various dates in 2012 in the aggregate amount of US\$31.5 million. The aggregate amounts of US\$3.5 million, or Php144 million, and US\$35 million, or Php1,537 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The remaining balance of US\$3.5 million, or Php144 million, was fully paid in February 2013. The December 31, 2012 outstanding balance was presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

Debt Covenants

Our 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.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 57%, 45% and 47% of PLDT's total consolidated debts as at December 31, 2013 and 2012, and January 1, 2012, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso. See Note 27 – *Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

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.

PLDT's debt instruments and guarantees for DMPI loans also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. Previously, Smart was required to comply with certain consolidated debt to consolidated equity ratio under Variable Loan Agreement 2014 debt with Marubeni Corporation as original lender and under the 2014 (A) Debt under Metrobank as Facility Agent. On August 16, 2012 and September 3, 2012, the approvals to amend the covenant from "the ratio of Consolidated Debt to Consolidated Equity" to "the ratio of Consolidated Debt to Consolidated EBITDA" were obtained. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

DMPI's debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due under the loans, including: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if DMPI or PLDT, as guarantor, is in default under another loan agreement; (b) failure by PLDT to comply with certain financial ratio covenants; (c) occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs DMPI's and PLDT's ability to perform its obligations under its loan agreements; (d) change of control; and (e) other typical events of default including the commencement of bankruptcy, insolvency, liquidation, or winding up proceedings by DMPI.

As at December 31, 2013 and 2012, and January 1, 2012, we were in compliance with all of our debt covenants.

Obligations Under Finance Leases

The consolidated future minimum payments for finance leases as at December 31, 2013 are as follows:

Year	(in million pesos)
2014	6
2015	5
2016 and onwards	1
Total minimum finance lease payments (Note 27)	12
Less amount representing unamortized interest	1
Present value of net minimum finance lease payments (Notes 2, 3 and 27)	11
Less obligations under finance leases maturing within one year (Notes 9 and 27)	5
Long-term portion of obligations under finance leases (Notes 9 and 27)	6

Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, ePLDT and PLDT Global have finance lease obligations in the aggregate amounts of Php12 million and Php21 million as at December 31, 2013 and 2012, respectively, while PLDT and SPi have finance lease obligations in the aggregate amount of Php16 million as at January 1, 2012. See Note 9 – *Property, Plant and Equipment*.

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

21. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Accrual of capital expenditures under long-term financing	19,515	19,203	20,128
Provision for asset retirement obligations (Notes 3 and 9)	2,144	2,543	2,107
Unearned revenues (Note 23)	173	174	172
Others	213	30	235
	22,045	21,950	22,642

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2013 and 2012:

	2013	2012
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	2,543	2,107
Accretion expenses (Note 5)	44	146
Additional liability recognized during the year (Note 28)	32	290
Settlement of obligations and others	(475)	–
Provision for asset retirement obligations at end of the year (Note 3)	2,144	2,543

22. Accounts Payable

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Suppliers and contractors (Note 27)	29,799	26,128	25,476
Carriers (Note 27)	2,264	2,007	1,642
Taxes (Note 26)	1,734	1,421	1,555
Related parties (Notes 24 and 27)	863	668	626
Others	222	227	255
	34,882	30,451	29,554

Accounts payable are non-interest bearing and are normally settled within 180 days.

For terms and conditions pertaining to related parties, see *Note 24 – Related Party Transactions*.

For explanation on the PLDT Group's liquidity risk management processes, see *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

23. Accrued Expenses and Other Current Liabilities

As at December 31, 2013 and 2012, and January 1, 2012, this account consists of:

	December 31,		January 1,
	2013	2012	2012
		(in million pesos)	
Accrued utilities and related expenses (Notes 24 and 27)	37,937	36,800	28,429
Accrued taxes and related expenses (Note 26)	8,878	8,281	11,817
Liability from redemption of preferred shares (Notes 19, 27 and 28)	7,952	7,884	–
Unearned revenues (Note 21)	7,333	6,291	5,664
Accrued employee benefits (Notes 2, 3, 24, 25 and 27)	5,364	5,494	4,463
Accrued interests and other related costs (Notes 20 and 27)	878	1,174	1,122
Mandatory tender offer option liability (Note 28)	–	–	4,940
Others	5,914	5,700	1,836
	74,256	71,624	58,271

Accrued utilities and related expenses pertain to cost incurred for electricity and water consumption, repairs and maintenance, selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Accrued expenses and other current liabilities are non-interest bearing and are normally settled within a year.

24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at December 31, 2013 and 2012, and January 1, 2012. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at December 31, 2013 and 2012, and January 1, 2012 transactions that have been entered into with related parties:

Classifications	Terms	Conditions	December 31, January 1,			
			2013	2012	2012	
			(in million pesos)			
<i>Indirect investment in joint ventures through PCEV:</i>						
Meralco	Accrued expenses and other current liabilities (Note 23)	Electricity charges – immediately upon receipt of invoice	Unsecured	317	266	271
		Pole rental – 45 days upon receipt of billing	Unsecured	10	12	6
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 23)	Outside and inside plant – 20 days upon receipt of invoice	Unsecured	–	2	–
<i>Indirect investment in associate through ACeS Philippines:</i>						
AIL	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of billing	Unsecured	44	43	147
<i>Transactions with major stockholders, directors and officers:</i>						
Asia Link B.V., or ALBV	Accounts payable (Note 22)	15 days from end of quarter	Unsecured	336	252	234
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 23)	1 st month of each quarter; non-interest bearing	Unsecured	32	29	29
NTT Communications	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured	13	18	12
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured	1	2	–
NTT DOCOMO	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured	23	8	8
JGSHI	Accounts payable and accrued expenses and other current liabilities (Notes 22 and 23)	Immediately upon receipt of invoice	Unsecured	10	5	70
Malayan Insurance Co., Inc., or Malayan	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of invoice	Unsecured	9	1	1
<i>Others:</i>						
Various	Trade and other receivables (Note 16)	30 days upon receipt of billing	Unsecured; no impairment	476	297	325

The following table provides the summary of transactions for the years ended December 31, 2013, 2012 and 2011 in relation with the table above for the transactions that have been entered into with related parties.

Classifications	2013	2012	2011	
(in million pesos)				
<i>Indirect investment in joint ventures through PCEV:</i>				
Meralco	Repairs and maintenance	3,049	3,096	2,319
	Rent	250	250	226
MIESCOR	Repairs and maintenance	68	51	28
	Construction-in-progress	48	35	25
Republic Surety and Insurance Co., Inc. or RSIC	Insurance and security services	3	3	–
<i>Indirect investment in associate through ACeS Philippines:</i>				
AIL	Cost of sales (Note 5)	50	80	105

Classifications		2013	2012	2011
<i>Transactions with major stockholders, directors and officers:</i>			(in million pesos)	
JGSHI	Rent	95	82	29
	Repairs and maintenance	14	67	10
	Communication, training and travel	13	14	3
	Selling and promotions	3	6	2
	Professional and other contracted services	1	1	–
ALBV	Professional and other contracted services	289	332	581
Malayan	Insurance and security services	231	234	230
NTT DOCOMO	Professional and other contracted services	73	56	72
NTT World Engineering Marine Corporation	Repairs and maintenance	14	32	14
NTT Worldwide Telecommunications Corporation	Selling and promotions	15	13	11
NTT Communications	Professional and other contracted services	73	69	69
	Rent	10	10	8
<i>Others:</i>				
Various	Revenues	717	418	296

a. *Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php3,049 million, Php3,096 million and Php2,319 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under these agreements, the outstanding utilities payable, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php317 million, Php266 million and Php271 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php250 million each for the years ended December 31, 2013 and 2012, and Php226 million for the year ended December 31, 2011. Under these agreements, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php10 million, Php12 million and Php6 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

See also *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares* for additional transactions involving Meralco.

b. *Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, covering the periods from November 25, 2011 until December 31, 2014, renewable upon mutual agreement by both parties. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable works, civil and electrical engineering works and subscriber line installation and maintenance that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php33 million, Php19 million and Php8 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total amount capitalized to property, plant and equipment amounted to Php2 million, Php6 million and Php1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil as at December 31, 2013 and January 1, 2012, and Php2 million as at December 31, 2012.

PLDT also has an existing agreement with MIESCOR for the provision of work for outside plant rehabilitation and related activities. Under the agreement, MIESCOR is responsible for the preventive and corrective maintenance of cables and cabinets in the areas awarded to them. The original contract covers the period from January 1, 2011 up to December 31, 2012, however, both parties mutually agreed to an extension until March 31, 2014.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php35 million, Php32 million and Php20 million for the years ended December 31, 2013, 2012 and 2011, respectively. Total amount capitalized to property, plant and equipment amounted to Php46 million, Php29 million and Php24 million for the years ended December 31, 2013, 2012 and 2011, respectively. There were no outstanding obligations under this agreement as at December 31, 2013 and 2012, and January 1, 2012.

c. *Transactions with RSIC*

In 2012, PLDT has insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php3 million each for the years ended December 31, 2013 and 2012, respectively. There were no outstanding obligations for these contracts as at December 31, 2013 and 2012.

d. *Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA, which was presented as part of cost of sales in our consolidated income statements, amounted to Php50 million, Php80 million and Php105 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under the Amended ATPA, the outstanding obligations of PLDT, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php44 million, Php43 million and Php147 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 5 – Income and Expenses – Cost of Sales*.

e. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest as at December 31, 2013 and 2012, and January 1, 2012 and for the years ended December 31, 2013, 2012 and 2011 are as follows:

1. *Agreement between Smart and ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which expired on February 23, 2012 was renewed until February 23, 2016 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Effective February 1, 2014, the parties agreed to reduce the technical service fee rate from 0.5% to 0.4% of the consolidated net revenues of Smart. Total service fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php289 million, Php332 million and Php581 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php336 million, Php252 million and Php234 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

2. *Other Agreements with NTT Communications and/or its Affiliates*

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

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php14 million, Php32 million and Php14 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php32 million as at December 31, 2013 and Php29 million each as at December 31, 2012 and January 1, 2012;
- *Advisory Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php73 million for the year ended December 31, 2013 and Php69 million each for the years ended December 31, 2012 and 2011. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php12 million each as at December 31, 2013 and January 1, 2012, and Php17 million as at December 31, 2012;
- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which was presented as part of rent in our consolidated income statements, amounted to Php10 million each for the years ended December 31, 2013 and 2012, and Php8 million for the year ended December 31, 2011. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million each as at December 31, 2013 and 2012, and nil as at January 1, 2012; and
- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which was presented as part of selling and promotions in our consolidated income statements, amounted to Php15 million, Php13 million and Php11 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million, Php2 million and nil as at December 31, 2013 and 2012, and January 1, 2012, respectively.

3. *Transactions with JGSHI and Subsidiaries*

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php95 million, Php82 million and Php29 million for the years ended December 31, 2013 and 2012 and for the period from October 26, 2011 to December 31, 2011, respectively. Under these agreements, the outstanding obligations, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php8 million, Php4 million and Php67 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

There were also other transactions such as airfare, electricity, marketing expenses and bank fees, which was presented as part of communication, training and travel, selling and promotions, repairs and maintenance and professional and other contracted services, totaling to Php31 million, Php88 million and Php15 million for the years ended December 31, 2013 and 2012 and for the period from October 26, 2011 to December 31, 2011, respectively. The outstanding obligations for these transactions, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million, Php1 million and Php3 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

4. *Advisory Service Agreement between NTT DOCOMO and PLDT*

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php73 million, Php56 million and Php72 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php23 million as at December 31, 2013 and Php8 million each as at December 31, 2012 and January 1, 2012.

5. *Transactions with Malayan*

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, employees liability and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php231 million, Php234 million and Php230 million for the years ended December 31, 2013, 2012 and 2011, respectively. Under this agreement, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million as at December 31, 2013 and Php1 million each as at December 31, 2012 and January 1, 2012. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at December 31, 2013 and 2012, and January 1, 2012.

6. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO.* Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition.* NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- *Business Cooperation.* PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- *Additional Rights of NTT DOCOMO.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:
 1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
 2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
 3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
 4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2013 and 2012, and January 1, 2012.

- *Change in Control.* Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A “Hostile Transferee” is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.
- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT’s common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT’s common stock representing at least 18.5% of the shares of PLDT’s common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

f. *Others*

1. *Telecommunications Services provided by PLDT and certain of its subsidiaries to various related parties*

PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties at arm’s length similar to transactions with other customers. The revenues under these services amounted to Php717 million, Php418 million and Php296 million for the years ended December 31, 2013, 2012 and 2011, respectively. The outstanding receivables of PLDT and certain of its subsidiaries, which was presented as part of trade and other receivables in our consolidated statements of financial position, from these services amounted to Php476 million, Php297 million and Php325 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

See Note 10 – *Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest* and Note 18 – *Prepayments – Agreement between PLDT and Smart with TV5* for other related party transactions.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(in million pesos)	
Short-term employee benefits	791	995	820
Post-employment benefits (Note 25)	31	20	33
Other long-term employee benefits (Note 25)	305	272	–
Total compensation paid to key officers of the PLDT Group	1,127	1,287	853

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director’s fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as expenses during the reporting period related to key management personnel.

25. Employee Benefits

Pension

Defined Benefit Pension Plans

PLDT have defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering substantially all of our permanent and regular employees. Certain subsidiaries of PLDT have not yet drawn up a specific retirement plan for its permanent or regular employees. For the purpose of complying with PAS 19, pension benefit expense has been actuarially computed based on defined benefit plan.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(As Adjusted – Note 2)	
		(in million pesos)	
Changes in present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	17,456	15,662	14,604
Actuarial losses (gains) – economic assumptions	1,180	1,622	(528)
Service costs	970	869	812
Interest costs on benefit obligation	958	980	1,164
Actuarial losses (gains) – experience	552	478	(201)
Actual benefits paid/settlements	(1,348)	(1,985)	(203)
Discontinued operations and others (Notes 2 and 13)	(271)	(170)	14
Present value of defined benefit obligations at end of the year	19,497	17,456	15,662
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	18,435	23,706	20,001
Actual contributions	2,073	2,012	26
Interest income on plan assets	1,023	1,482	1,600
Actual benefits paid/settlements	(1,348)	(1,957)	(203)
Actuarial gains (losses) on plan assets (excluding amount included in net interest)	(10,996)	(6,785)	2,282
Discontinued operations and others (Notes 2 and 13)	–	(23)	–
Fair value of plan assets at end of the year	9,187	18,435	23,706
Surplus (unfunded) status – net	(10,310)	979	8,044
Accrued benefit costs (Note 3)	10,310	492	438
Prepaid benefit costs (Notes 3 and 18)	–	1,471	8,482
Components of net periodic benefit costs:			
Service costs	970	869	812
Interest income – net	(65)	(502)	(436)
Curtailement/settlement gains (losses) and other adjustments	(275)	160	6
Net periodic benefit costs (Notes 3 and 5)	630	527	382
Discontinued operations (Note 2)	–	170	8
Net periodic benefit costs from continuing operations	630	357	374

Actual net losses on plan assets amounted to Php9,973 million and Php5,303 million for the years ended December 31, 2013 and 2012, respectively, while actual net gains on plan assets amounted to Php3,882 million for the year ended December 31, 2011.

We expect to contribute the amount of Php1,443 million to our defined benefit plan in 2014.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2013:

	(in million pesos)
2014	160
2015	247
2016	284
2017	338
2018	396
2019 to 2057	95,315

The average duration of the defined benefit obligation at the end of the reporting period is 16 to 28 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Rate of increase in compensation	6%	6%	6%
Discount rate	5%	5%	6%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other assumptions were held constant:

	2013	
	Increase (Decrease)	
	(in million pesos)	
Discount rate	1%	(2,427)
	(1%)	2,879
Future salary increases	1%	2,877
	(1%)	(2,425)

PLDT's Retirement Plan

The Board of Trustees performed an asset-liability matching study of our retirement plan. The Board of Trustees, which manages the beneficial trust fund, is composed of: (i) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives or employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the year to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the Philippine SEC. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

For the year 2013, PLDT contributed a total of Php2,073 million to the beneficial trust fund.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at December 31, 2013 and 2012:

	2013	2012
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in:</i>		
Unlisted equity investments	5,877	14,930
Shares of stock	2,435	3,064
Mutual funds	64	120
Government securities	43	48
Investment properties	11	8
Total noncurrent financial assets	8,430	18,170
Current Financial Assets		
Cash and cash equivalents	340	181
Receivables	336	3
Total current financial assets	676	184
Total PLDT's Plan Assets	9,106	18,354
Subsidiaries Plan Assets	81	81
Total Plan Assets of Defined Benefit Pension Plans	9,187	18,435

Investment in shares of stocks is valued using the latest bid price at reporting date. Investments in mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values.

Unlisted Equity Investments

As at December 31, 2013 and 2012, this account consists of:

	2013	2012	2013	2012
	% of Ownership		(in million pesos)	
MediaQuest	100%	100%	5,373	14,468
Tahanan Mutual Building and Loan Association, or TMBLA (net of subscriptions payable of Php32 million)	100%	100%	302	271
BTF Holdings, Inc., or BTFHI	100%	100%	162	152
Superior Multi Parañaque Homes, Inc.	100%	100%	39	38
Bancholders, Inc., or Bancholders	100%	100%	1	1
Superior Parañaque Homes, Inc.	100%	100%	-	-
			5,877	14,930

Investment in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

The Board of Trustees of the Beneficial Trust Fund approved to make additional investments in MediaQuest amounting to Php750 million each on November 5, 2012 and January 25, 2013 to fund the latter's operational and capital expenditure requirements. Subsequently, on March 1, 2013, the Board of Directors of MediaQuest approved its application of the additional investment to additional paid in capital on the existing subscribed shares of stock.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which will give ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012. The Cignal TV PDRs were subsequently issued on September 27, 2013.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of stocks of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs were subsequently issued on September 27, 2013.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs), the holder of which will have a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including noncontrolling interests in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. In 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

In November 2013, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the additional investment of Hastings in Philippine Star Group and approved the issuance of PDRs by MediaQuest for its interest in Hastings. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

The fair values of the investments in MediaQuest were measured using an income approach valuation technique using cash flows projections based on financial budgets and forecasts approved by MediaQuest's Board of Directors, covering a five-year period from 2014 to 2018.

The pre-tax discount rates applied to cash flow projections range from 11% to 12%. Cash flows beyond the five-year period are determined using 3% to 7% growth rates.

Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in "unlisted equity investments" in the total financial assets table. The cumulative change in the fair market value of this investment amounted to Php222 million and Php191 million as at December 31, 2013 and 2012, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possession thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php12 million and Php2 million for the years ended December 31, 2013 and 2012, respectively. Dividend receivable amounted to Php2 million each as at December 31, 2013 and 2012.

Investment in Shares of Stocks

As at December 31, 2013 and 2012, this account consists of:

	2013	2012
	(in million pesos)	
Common shares	2,075	2,704
Preferred shares	360	360
	2,435	3,064

Common shares pertain to shares listed in the PSE with fair value of Php2,075 million, which include shares of PSE with fair value of Php1,668 million, shares of PLDT with fair value of Php71 million and other shares with fair value of Php336 million as at December 31, 2013. Total gain from investment in shares of PLDT for the year ended December 31, 2013 amounted to Php9 million comprising of Php5 million in dividend income and Php4 million unrealized gain from increase in market value of investment.

Common shares pertain to shares listed in the PSE with fair value of Php2,704 million, which include shares of PSE with fair value of Php2,286 million, shares of PLDT with fair value of Php67 million and other shares with fair value of Php351 million as at December 31, 2012. Total gain from investment in shares of PLDT for the year ended December 31, 2012 amounted to Php5 million comprising of Php5 million in dividend income and Php159 thousand unrealized gain from increase in market value of investment.

Preferred shares represent 300 million preferred shares of PLDT at Php10 par value as at December 31, 2013 and 2012, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividend earned on this investment amounted to Php49 million each for the years ended December 31, 2013 and 2012.

Mutual Funds

Investment in mutual funds include various U.S. dollar and Euro denominated equity funds, which aims to out-perform benchmarks in various international indices as part of its investment strategy. Total investment in mutual funds amounted to Php64 million and Php120 million as at December 31, 2013 and 2012, respectively.

Government Securities

Investment in government securities include retail treasury bonds bearing interest ranging from 5.88% to 7.00%. These securities are fully guaranteed by the government of the Republic of the Philippines. Total investment in government securities amounted to Php43 million and Php48 million as at December 31, 2013 and 2012, respectively.

Investment Properties

Investment properties include two condominium units (bare, separate 127 and 58 square meter units) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cashflows to be matched with asset durations. Total investment properties amounted to Php11 million and Php8 million as at December 31, 2013 and 2012, respectively.

The allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
Investments in listed and unlisted equity securities	95%	98%	96%
Temporary cash investments	4%	1%	3%
Investments in mutual funds	1%	1%	–
Investments in debt and fixed income securities	–	–	1%
	100%	100%	100%

Defined Contribution Plans

Smart and certain of its subsidiaries contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at December 31, 2013 and 2012, and January 1, 2012, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart and certain of its subsidiaries actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(in million pesos)	
Changes in present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	1,606	1,470	1,196
Service costs	226	226	203
Interest costs on benefit obligation	95	101	119
Actuarial losses (gains) – economic assumptions	(6)	–	2
Actuarial losses (gains) – experience	(59)	6	121
Actual benefits paid/settlements	(177)	(197)	(162)
Others (Notes 2 and 13)	–	–	(9)
Present value of defined benefit obligations at end of the year	1,685	1,606	1,470
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	1,760	1,614	1,483
Actual contributions	208	185	176
Interest income on plan assets	95	100	117
Actuarial gains (losses) on plan assets (excluding amount included in net interest)	(2)	58	1
Actual benefits paid/settlements	(177)	(197)	(163)
Fair value of plan assets at end of the year	1,884	1,760	1,614
Surplus status – net	199	154	144
Components of net periodic benefit costs:			
Service costs	226	226	203
Interest cost – net	–	1	2
Curtailment/settlement losses and other adjustments	–	–	(9)
Net periodic benefit costs (Notes 3 and 5)	226	227	196

Actual net gains on plan assets amounted to Php93 million, Php158 million and Php118 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Approximately Php234 million are expected to be contributed by Smart and certain of its subsidiaries to the fund in 2014.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2013:

	(in million pesos)
2014	101
2015	53
2016	67
2017	73
2018	97
2019 to 2054	21,436

The average duration of the defined benefit obligation at the end of the reporting period is 21 to 34 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Rate of increase in compensation	6%	7%	7%
Discount rate	5%	5%	6%

The overall expected rate on return on assets is determined based on the market expectations prevailing, applicable to the period over which the obligation is to be settled.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other assumptions were held constant:

	2013	
	Increase (Decrease)	
	(in million pesos)	
Discount rate	1%	-
	(1%)	-
Future salary increases	1%	6
	(1%)	(2)

Smart's Retirement Plan

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at December 31, 2013 and 2012:

	2013	2012
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in⁽¹⁾:</i>		
Domestic fixed income	989	1,280
International equities	635	350
Domestic equities	342	513
International fixed income	188	175
Total noncurrent financial assets	2,154	2,318
Current Financial Assets		
Cash and cash equivalents	294	12
Receivables	1	15
Total current financial assets	295	27
Total plan assets	2,449	2,345
Employee's share	660	664
Smart's plan assets	1,789	1,681
Subsidiaries' plan assets	95	79
Total Plan Assets of Defined Contribution Plans	1,884	1,760

⁽¹⁾ Carrying value includes accumulated equity on investees.

Investment in Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities, corporate bonds and notes, special savings, debt securities and other deposit products of the banks. The investments under this category earned between 7.2% and 9.1% interest for the year ended December 31, 2013 and between 6.2% to 9.1% interest in 2012.

Investment in International Equities

This category consists of international mutual funds being managed by ING International. Total investment in international equities amounted to Php635 million and Php350 million as at December 31, 2013 and 2012, respectively.

Investment in Domestic Equities

Investments in domestic equities include common shares and convertible preferred shares listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php342 million and Php513 million as at December 31, 2013 and 2012, respectively.

Investment in International Fixed Income

Investments in international fixed income include foreign currency denominated bonds, such as mutual funds and unit investment trust funds. The Philippine sovereign debt, the only interest-bearing investment in this category, earned 5% interest for the year ended December 31, 2012. Total investment in international fixed income amounted to Php188 million and Php175 million as at December 31, 2013 and 2012, respectively.

Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including time deposits and mutual funds and other deposit products of banks with tenor of less than one year.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cashflows to be matched with asset durations.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at December 31, 2013 and 2012, and January 1, 2012 is as follows:

	December 31,		January 1,
	2013	2012	2012
Investments in debt and fixed income securities	48%	56%	57%
Investments in listed and unlisted equity securities	40%	37%	29%
Others	12%	7%	14%
	100%	100%	100%

Other Long-term Employee Benefits

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the new LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the years ended December 31, 2013 and 2012 amounted to Php1,638 million and Php1,491 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php3,129 million and Php1,491 million as at December 31, 2013 and 2012, respectively. See Note 3 – *Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits* and Note 5 – *Income and Expenses – Compensation and Employee Benefits*.

Net periodic benefit costs computed for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(in million pesos)	
Components of net periodic benefit costs:		
Current service costs	1,532	1,459
Interest costs	42	21
Net actuarial loss	64	11
Net periodic benefit costs (Note 3)	1,638	1,491

26. Provisions and Contingencies

Supervision and Regulatory Fees, or SRF, due to the NTC

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals, but, as set forth below, was rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on the actual amount paid (inclusive of premiums) for the "capital stock subscribed or paid" and not on par or market value. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as basis not only capital stock subscribed or paid, but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the Assessment Letter and Demand Letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

On June 26, 2013, the Supreme Court issued a resolution denying with finality the Motion for Reconsideration of the NTC. PLDT received the Supreme Court's resolution on August 6, 2013, which serves as the termination of the case.

PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various local government units. PLDT has paid a total amount of Php1,163 million as at December 31, 2013 for local franchise tax covering prior periods up to December 31, 2013.

As at December 31, 2013, PLDT has no contested Local Government Unit, or LGU, assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. Its Motion for Reconsideration having been denied by the court in its Order dated March 2, 2009, the City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss on the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. In a resolution dated February 9, 2012, the Court of Appeals dismissed the case for failure of the City of Tuguegarao and its Treasurer to file their Appellants' Brief. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. The City of Tuguegarao filed its Answer with Motion to Dismiss claiming that the RTC of the City of Makati does not have jurisdiction over the case. Both parties have filed their respective Memorandum on the issue of Jurisdiction. A judicial dispute resolution, or JDR, conference was set by the court after the parties failed to settle the case in the mediation proceedings. Due to the failure of the City of Tuguegarao to appear on the JDR conference last May 15, 2012, the court transmitted the case to the Office of the Clerk of Court of the City of Makati for re-raffling in accordance with the JDR guidelines. The case was raffled to Branch 132 of Makati City and a Pre-Trial Conference, which was scheduled on October 19, 2012, was postponed by the court due to the Motion for Resolution on the previously filed Motion to Dismiss by Tuguegarao City on the ground of lack of jurisdiction. In an order dated October 12, 2012, the court granted the Motion to Dismiss for lack of jurisdiction. PLDT filed a Motion for Reconsideration while the City of Tuguegarao has filed its corresponding Comment. In a Resolution dated January 18, 2013, the court denied the Motion for Reconsideration filed by PLDT. On March 8, 2013, PLDT filed a Petition for Review on the said dismissal of the case before the CTA. Acting on the Petition for Review filed by PLDT, the Second Division of the CTA issued a Resolution dated March 13, 2013 ordering the Respondents City of Tuguegarao and City Treasurer to file their Comment on the Petition for Review filed by PLDT. In a Resolution dated July 2, 2013 and received on July 12, 2013, the CTA ordered both parties to submit its respective Memorandum. PLDT has already submitted its Memorandum together with its Motion to Admit Memorandum and submit case for Resolution after Respondent City of Tuguegarao and City Treasurer failed to file their Comment on the Petition for Review filed by PLDT. On January 3, 2014, PLDT received an Entry of Appearance with Motion for Extension of Time to File Memorandum filed by the new counsel of the City of Tuguegarao asking the CTA to allow the City of Tuguegarao to file its Memorandum on or before January 14, 2014. Said Motion for Extension of Time to File Memorandum was denied by the CTA in a Resolution dated January 14, 2014.

Smart's Local Business and Franchise Tax Assessments

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160, or R.A. No. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. On April 30, 2012, the RTC rendered a decision giving the petition due course and the assailed tax assessment nullified and set aside. The Province of Cagayan was directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then filed a Petition for Review before the Court of Tax Appeals in the City of Quezon on June 19, 2012, appealing the RTC Decision dated April 30, 2012. In a Decision promulgated on July 25, 2013, the Court of Tax Appeals ruled that the franchise tax assessment made by the Province of Cagayan against Smart covering the periods from 2004 to 2009 based on "presumptive tax" is null and void for lack of legal and factual justifications.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax. However, in the case of *Digitel vs. City Government of Batangas* (G.R. No. 156040, December 11, 2008), the Supreme Court ruled that Digitel's real properties used in its telecommunications business are subject to the real property tax. On June 16, 2009, the Supreme Court denied Digitel's Motion for Reconsideration. Digitel has already fully settled its obligation with the City Government of Batangas and in an order dated January 8, 2012, the case has been terminated by the Regional Trial Court, Branch 8 of Batangas City.

DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato* (Civil Case No. 2010-345, February 2010), DMPI filed a Petition for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites due to real property tax delinquencies. DMPI is awaiting confirmation from external counsel and there are still ongoing negotiations for the reassessment of the valuation of DMPI sites.

In the *DMPI vs. City of Davao* (Special Civil Case No. 33,823-11, March 2011), DMPI's Petition for Prohibition and Mandamus sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted, being that it is exempt under its BOI registration and prevailing laws. The case is in pre-trial stage. DMPI paid local business taxes and real property tax on tower and improvements. The City of Davao's Legal Officer issued a letter-opinion declaring DMPI's machinery as exempt from real property tax. The Office of the City Assessor has already confirmed this ruling, and issued a Tax Declaration declaring all machineries of DMPI located in the City of Davao as "Tax-Exempt". DMPI has filed a Motion seeking the dismissal of the case considering these developments and its pending resolution.

In the *DMPI vs. City Government of Malabon* (Special Civil Action 11-011-MN, November 2011), DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a Temporary Restraining Order to defer the sale. There is an ongoing mediation and the parties are exploring the possibility of settling amicably.

DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo* (Special Civil Action Case No. Br. 20-542, September 2011), DMPI filed a petition for Prohibition and Mandamus with Preliminary Injunction and Temporary Restraining Order against the Tower Fee Ordinance of the Municipality of San Mateo. The parties have already submitted their respective memorandum and the case is already submitted for resolution. The RTC denied DMPI's petition. In June, 2013, DMPI filed a motion for reconsideration and sought the inhibition of the presiding judge. The inhibition was granted, and the Motion for Reconsideration is now pending resolution by the newly assigned Judge.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the Court of Appeals after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200,000 per cell site per annum. DMPI has already filed its comment to the petition and the matter is now awaiting resolution.

DMPI vs. City of Trece Martires (Civil Case No. TMSCA-004-10, February 2010) – DMPI petitioned to declare void the Trece Martires ordinance of imposing tower fee of Php150,000 for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

Globe Telecoms, et al. vs. City of Lipa (Civil Case No. 2006-0568, 2006) – Globe filed a Protest of Assessment questioning the act of the LGU in assessing tower fees for its sites amounting to Php105,000 per year. A joint Memoranda for Smart, DTPI and DMPI was submitted in June 2013 pertaining to the issue of whether the Ordinance is a regulatory or tax imposition.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition

In the Gamboa Case, the Supreme Court in its decision dated June 28, 2011, or the Gamboa Case Decision, held that “the term ‘capital’ in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)”. The Gamboa Case Decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution. Several Motions for Reconsideration of the Gamboa Case Decision were filed by the parties. On October 18, 2012, the Gamboa Case Decision became final and executory.

While PLDT was not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case “to apply this definition of the term ‘capital’ in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law.”

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT’s Articles of Incorporation consisting of the sub-classification of its authorized preferred capital stock into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 12, 2012, the Board of Directors of PLDT approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a Filipino corporation. On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, or the Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: “All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.” PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of December 31, 2013, PLDT’s foreign ownership was 31.53% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.33% of its total outstanding capital stock.

On June 10, 2013, PLDT was served a copy of a Petition for Certiorari under Rule 65 of the Revised Rules of Court, or the Petition, filed with the Supreme Court by Jose M. Roy III as petitioner against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT as respondents. The Petition primarily questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine company pursuant to the Gamboa Case Decision and Section 11, Article XII of the Constitution. Per the Philippine SEC Guidelines, the Philippine nationality requirement of Section 11, Article XII of the Constitution is met if at least 60% of: (a) the outstanding voting stocks; and (b) the outstanding capital stock of the company is owned by Filipinos.

The Petition admits that if the Philippine SEC Guidelines were to be followed, PLDT would be compliant with the nationality requirement of the Philippine Constitution. However, the Petition claims that the Philippine SEC Guidelines do not conform to the letter and spirit of the Constitution and the Gamboa Case Decision supposedly requiring the application of the 60%-40% ownership requirement in favor of Filipino citizens separately to each class of shares, whether common, preferred non-voting, preferred voting or any other class of shares, or the Other Gamboa Statements. The Petition also claims that the PLDT Beneficial Trust Fund does not satisfy the effective Filipino-control test for purposes of incorporating BTFHI which acquired the 150 million Voting Preferred Shares.

Wilson C. Gamboa, Jr., Daniel V. Cartagena, John Warren P. Gabinete, Antonio V. Pesina, Jr., Modesto Martin Y. Mamon and Gerardo C. Erebaren, or the Intervenors, filed a Motion for Leave to file Petition-In-Intervention dated July 16, 2013 which the Supreme Court granted in a Resolution dated August 6, 2013. The Petition-In-Intervention raised identical arguments and issues as that of the Petition.

PLDT, through counsels, filed its Comment on the Petition on September 5, 2013. In its Comment, PLDT raised the following defenses: (a) Petitioner's direct recourse to the Supreme Court in filing the petition violates the fundamental doctrine of the hierarchy of courts. There are no compelling reasons to invoke the Supreme Court's original jurisdiction; (b) The Petition was prematurely brought before the Supreme Court. Petitioner failed to exhaust administrative remedies before the Philippine SEC, and there are facts yet to be established (in the lower courts) that are necessary for a proper and complete ruling; (c) The Petition is in the nature of a petition for mandamus and/or declaratory relief which, under Rules 65 and 63 of the Rules of Court, are not within the exclusive and/or original jurisdiction of the Supreme Court, as provided under Article VIII, Sections 5(1), 5(5), 6 and 11 of the Constitution and Rule 56 of the Rules of Court; (d) The Petition must be dismissed in as much as it is challenging the validity and constitutionality of a Memorandum Circular, which was issued in the exercise of the Philippine SEC's quasi-legislative power, for which a petition for certiorari is an inappropriate remedy; (e) Assuming *arguendo* that the issuance of Philippine SEC Memorandum Circular No. 8 involved the exercise by the Philippine SEC of its quasi-judicial power, the Petition still cannot prosper since the issue of the validity and constitutionality of Philippine SEC Memorandum Circular No. 8 does not pertain to errors of jurisdiction on the part of the Philippine SEC; (f) Petitioner is not the proper party to question the constitutionality of the Philippine SEC Guidelines and PLDT's compliance with the Gamboa decision and the Petition is likewise not a valid taxpayer's suit and should not be entertained by the Supreme Court; (g) The Petition seeks relief that effectively deprives the necessary and indispensable parties affected thereby (such as, BTFHI, MediaQuest, PLDT Beneficial Trust Fund, and all corporations in which PLDT Beneficial Trust Fund made an investment and their subsidiaries) of their constitutional right to due process, all of whom were not impleaded as parties; and (h) Philippine SEC Memorandum Circular No. 8 merely implemented the dispositive portion of the Gamboa Case Decision.

Particularly, for the defense under (h) above, PLDT argued that: (a) the only binding and enforceable part of the Gamboa Case Decision is the dispositive portion, which defined the term "capital" under Article XII, Section 11 of the 1987 Constitution as "shares of stock entitled to vote in the election of directors", and such dispositive portion of the Gamboa Case Decision is properly reflected and enforced in Philippine SEC Memorandum Circular No. 8. The Other Gamboa Statements were just "obiter dicta" or expressions of opinion which have no precedential value and binding effect; and (b) with respect to the nationality of PLDT Beneficial Trust Fund and BTFHI, the fundamental requirements which needs to be satisfied in order for PLDT Beneficial Trust Fund and BTFHI to be considered Filipino is for PLDT Beneficial Trust Fund's Trustees to be Filipinos and 60% of the Fund will accrue to the benefit of Philippine nationals. This is reflected in Section 3(a) of Republic Act No. 7042, as amended, or the Foreign Investment Act, which provides that the term "Philippine national" includes "a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of "Philippine nationals". Both requirements are present with respect to the PLDT Beneficial Trust Fund. Consequently, there is no question that PLDT Beneficial Trust Fund and BTFHI are Filipino shareholders for purposes of classifying their 150 million shares of Voting Preferred Stock in PLDT and as a result, more than 60% of PLDT's total voting stock is Filipino-owned. PLDT is thus compliant with the Philippine nationality requirement under Article XII, Section 11 of the 1987 Constitution.

PLDT filed its Comment on the Petition-in-intervention on October 22, 2013. PLDT raised identical defenses and arguments in its Comment on the Petition-in-intervention as that of its Comment on the Petition.

The resolution of the Jose M. Roy III Petition and the Petition-In-Intervention remains pending with the Supreme Court.

Other disclosures required by *PAS 37, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments*.

27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our financial assets and financial liabilities as at December 31, 2013 and 2012, and January 1, 2012:

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
(in million pesos)							
Assets as at December 31, 2013							
<i>Noncurrent:</i>							
Available-for-sale financial investments	-	-	-	-	220	-	220
Investment in debt securities and other long-term investments	2,172	471	-	-	-	-	2,643
Derivative financial assets	-	-	-	24	-	-	24
Advances and other noncurrent assets – net of current portion	2,285	-	-	-	-	-	2,285
<i>Current:</i>							
Cash and cash equivalents	31,905	-	-	-	-	-	31,905
Short-term investments	127	-	591	-	-	-	718
Trade and other receivables	17,564	-	-	-	-	-	17,564
Derivative financial assets	-	-	10	-	-	-	10
Current portion of advances and other noncurrent assets	7,987	-	-	-	-	-	7,987
Total assets	62,040	471	601	24	220	-	63,356
Liabilities as at December 31, 2013							
<i>Noncurrent:</i>							
Interest-bearing financial liabilities – net of current portion	-	-	-	-	-	88,930	88,930
Derivative financial liabilities	-	-	1,853	16	-	-	1,869
Customers' deposits	-	-	-	-	-	2,545	2,545
Deferred credits and other noncurrent liabilities	-	-	-	-	-	19,716	19,716
<i>Current:</i>							
Accounts payable	-	-	-	-	-	33,144	33,144
Accrued expenses and other current liabilities	-	-	-	-	-	57,611	57,611
Current portion of interest-bearing financial liabilities	-	-	-	-	-	15,171	15,171
Dividends payable	-	-	-	-	-	932	932
Derivative financial liabilities	-	-	65	40	-	-	105
Total liabilities	-	-	1,918	56	-	218,049	220,023
Net assets (liabilities)	62,040	471	(1,317)	(32)	220	(218,049)	(156,667)
Assets as at December 31, 2012							
<i>Noncurrent:</i>							
Available-for-sale financial investments	-	-	-	-	5,651	-	5,651
Investment in debt securities and other long-term investments – net of current portion	205	-	-	-	-	-	205
Advances and other noncurrent assets – net of current portion	962	-	-	-	-	-	962
<i>Current:</i>							
Cash and cash equivalents	37,161	-	-	-	-	-	37,161
Short-term investments	24	-	550	-	-	-	574
Trade and other receivables	16,379	-	-	-	-	-	16,379
Current portion of investment in debt securities and other long-term investments	-	150	-	-	-	-	150
Current portion of advances and other noncurrent assets	7,915	-	-	-	-	-	7,915
Total assets	62,646	150	550	-	5,651	-	68,997

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for- sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
(in million pesos)							
Liabilities as at December 31, 2012							
(As Adjusted – Note 2)							
<i>Noncurrent:</i>							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	102,821	102,821
Derivative financial liabilities	–	–	2,802	–	–	–	2,802
Customers' deposits	–	–	–	–	–	2,529	2,529
Deferred credits and other noncurrent liabilities	–	–	–	–	–	19,224	19,224
<i>Current:</i>							
Accounts payable	–	–	–	–	–	29,027	29,027
Accrued expenses and other current liabilities	–	–	–	–	–	56,662	56,662
Current portion of interest-bearing financial liabilities	–	–	–	–	–	12,989	12,989
Dividends payable	–	–	–	–	–	827	827
Derivative financial liabilities	–	–	70	348	–	–	418
Total liabilities	–	–	2,872	348	–	224,079	227,299
Net assets (liabilities)	62,646	150	(2,322)	(348)	5,651	(224,079)	(158,302)
Assets as at January 1, 2012							
<i>Noncurrent:</i>							
Available-for-sale financial investments	–	–	–	–	7,181	–	7,181
Investment in debt securities and other long- term investments	–	150	–	–	–	–	150
Advances and other noncurrent assets – net of current portion	1,147	–	–	–	–	–	1,147
<i>Current:</i>							
Cash and cash equivalents	46,057	–	–	–	–	–	46,057
Short-term investments	24	–	534	–	–	–	558
Trade and other receivables	16,245	–	–	–	–	–	16,245
Derivative financial assets	–	–	366	–	–	–	366
Current portion of investment in debt securities and other long-term investments	–	358	–	–	–	–	358
Current portion of advances and other noncurrent assets	18	–	–	–	–	–	18
Total assets	63,491	508	900	–	7,181	–	72,080
Liabilities as at January 1, 2012							
<i>Noncurrent:</i>							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	91,280	91,280
Derivative financial liabilities	–	–	2,235	–	–	–	2,235
Customers' deposits	–	–	–	–	–	2,272	2,272
Deferred credits and other noncurrent liabilities	–	–	–	–	–	20,343	20,343
<i>Current:</i>							
Accounts payable	–	–	–	–	–	27,982	27,982
Accrued expenses and other current liabilities	–	–	–	–	–	40,459	40,459
Current portion of interest-bearing financial liabilities	–	–	–	–	–	26,009	26,009
Dividends payable	–	–	–	–	–	2,583	2,583
Derivative financial liabilities	–	–	922	2	–	–	924
Total liabilities	–	–	3,157	2	–	210,928	214,087
Net assets (liabilities)	63,491	508	(2,257)	(2)	7,181	(210,928)	(142,007)

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2013 and 2012, and January 1, 2012 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value			Fair Value		
	December 31,	January 1,		December 31,	January 1,	
	2013	2012	2012	2013	2012	2012
		(As Adjusted – Note 2)			(As Adjusted – Note 2)	
	(in million pesos)					
Noncurrent Financial Assets						
<i>Available-for-sale financial investments:</i>						
Listed equity securities	97	89	81	97	89	81
Unlisted equity securities	123	5,562	7,100	123	5,562	7,100
<i>Investment in debt securities and other long-term investments – net of current portion</i>	2,643	205	150	2,668	219	158
<i>Derivative financial assets:</i>						
Interest rate swap	24	–	–	24	–	–
<i>Advances and other noncurrent assets – net of current portion</i>	2,285	962	1,147	2,043	912	1,061
Total noncurrent financial assets	5,172	6,818	8,478	4,955	6,782	8,400
Current Financial Assets						
<i>Derivative financial assets:</i>						
Short-term currency swap	10	–	–	10	–	–
Long-term currency swaps	–	–	356	–	–	356
Forward foreign exchange contracts	–	–	10	–	–	10
Total current financial assets	10	–	366	10	–	366
Total Financial Assets	5,182	6,818	8,844	4,965	6,782	8,766
Noncurrent Financial Liabilities						
<i>Interest-bearing financial liabilities:</i>						
Long-term debt – net of current portion	88,924	102,811	91,273	93,165	110,431	95,052
Obligations under finance leases	6	10	7	6	9	7
<i>Derivative financial liabilities:</i>						
Long-term currency swap – net of current portion	1,788	2,681	2,090	1,788	2,681	2,090
Interest rate swap – net of current portion	81	121	145	81	121	145
Customers' deposits	2,545	2,529	2,272	2,044	2,200	1,772
Deferred credits and other noncurrent liabilities	19,716	19,224	20,343	18,696	18,176	19,420
Total noncurrent financial liabilities	113,060	127,376	116,130	115,780	133,618	118,486
Current Financial Liabilities						
<i>Derivative financial liabilities:</i>						
Current portion of interest rate swap	105	70	89	105	70	89
Equity forward sale contract	–	348	–	–	348	–
Current portion of long-term currency swap	–	–	834	–	–	834
Current portion of forward foreign exchange contracts	–	–	1	–	–	1
Total current financial liabilities	105	418	924	105	418	924
Total Financial Liabilities	113,165	127,794	117,054	115,885	134,036	119,410

The following table sets forth the consolidated offsetting of financial assets and liabilities recognized as at December 31, 2013:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
	(in million pesos)		
December 31, 2013			
Noncurrent Financial Assets			
<i>Derivative financial instruments</i>			
Interest rate swap	180	156	24
Current Financial Assets			
<i>Trade and other receivables</i>			
Foreign administrations	7,554	1,833	5,721
Corporate subscribers	2,162	107	2,055
Domestic carriers	6,348	4,967	1,381
<i>Derivative financial instruments</i>			
Interest rate swap	73	73	–
Total	16,317	7,136	9,181

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
(in million pesos)			
Noncurrent Financial Liabilities			
<i>Derivative financial instruments</i>			
Interest rate swap – net of current portion	246	165	81
Current Financial Liabilities			
<i>Accounts payable</i>			
Suppliers and contractors	29,911	112	29,799
Carriers	4,846	2,582	2,264
<i>Derivative financial instruments</i>			
Current portion of interest rate swap	173	68	105
Total	35,176	2,927	32,249

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated statement of financial position.

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at December 31, 2013 and 2012, and January 1, 2012. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	December 31,						January 1,		
	2013			2012			2012		
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Total
(in million pesos)									
Noncurrent Financial Assets									
Available-for-sale financial investments – Listed equity securities	97	–	97	89	–	89	81	–	81
Derivative financial assets	–	24	24	–	–	–	–	–	–
Current Financial Assets									
Short-term investments	–	591	591	–	550	550	–	534	534
Derivative financial assets	–	10	10	–	–	–	–	366	366
Total	97	625	722	89	550	639	81	900	981
Noncurrent Financial Liabilities									
Derivative financial liabilities	–	1,869	1,869	–	2,802	2,802	–	2,235	2,235
Current Financial Liabilities									
Derivative financial liabilities	–	105	105	–	418	418	–	924	924
Total	–	1,974	1,974	–	3,220	3,220	–	3,159	3,159

⁽¹⁾ Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

⁽²⁾ Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.

As at December 31, 2013 and 2012, and January 1, 2012, we have no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3). As at December 31, 2013 and 2012, and January 1, 2012, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2013 and 2012, and January 1, 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

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

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	Fair Value Assumptions	Fair Value Hierarchy
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus counterparties' credit spread.	Level 3
Fixed Rate Loans: U.S. dollar notes	Quoted market price.	Level 1
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing, or PDST-F, rates for similar types of loans plus PLDT's credit spread.	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2
Customers' deposits and deferred credits and other noncurrent liabilities	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus PLDT's credit spread.	Level 3

Derivative Financial Instruments:

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

Equity forward sale contract: The fair values were adjusted as the present value of estimated future cash flows using equity prices and Philippine peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of proprietary listed shares, were determined using quoted prices. For investment where there is no active market, investments are carried at cost less any accumulated impairment losses.

Investment in debt securities: Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. Interest rate swap agreements were designated as cash flow hedges by PLDT and Smart as at December 31, 2013. Equity forward sale contract was designated as cash flow hedge by ePLDT as at December 31, 2012 and January 1, 2012 and forward foreign exchange contracts were designated as cash flow hedges by SPi and SPi CRM, Inc., or SPi CRM, as at January 1, 2012.

The table below sets out the information about our derivative financial instruments as at December 31, 2013 and 2012, and January 1, 2012:

Maturity	December 31,				January 1,	
	2013		2012		2012	
	Notional	Mark-to-market Gains (Losses)	Notional	Mark-to-market Losses	Notional	Mark-to-market Gains (Losses)
(in millions)						
Transactions not designated as hedges:						
<i>PLDT</i>						
Long-term currency swaps	2017	US\$202	(Php1,788)	US\$202	(Php2,681)	US\$222 (Php2,090)
	2012	-	-	-	-	100 (834)
	2012	-	-	-	-	60 ⁽¹⁾ 356
Short-term currency swaps	2014	6	4	-	-	-
<i>PGIH</i>						
Short-term currency swaps	2014	10	6	-	-	-
<i>DMPI</i>						
Interest rate swaps	2017	44	(130)	57	(191)	69 (234)
			(1,908)		(2,872)	(2,802)
Transactions designated as hedges:						
Cash flow hedges:						
<i>PLDT</i>						
Interest rate swaps	2018	120	11	-	-	-
<i>Smart</i>						
Interest rate swaps	2016	75	(11)	-	-	-
	2017	39	(6)	-	-	-
	2018	40	(26)	-	-	-
<i>ePLDT Group</i>						
Equity forward sale contract	2013	-	-	211 shares	(348)	-
<i>SPi Group</i>						
Forward foreign exchange contracts	2012	-	-	-	-	57 10
	2013	-	-	-	-	(4) (1)
			(32)		(348)	9
Net liabilities		(Php1,940)		(Php3,220)		(Php2,793)

⁽¹⁾ Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement matured in 2012.

	December 31,		January 1,
	2013	2012	2012
(in million pesos)			
Presented as:			
Noncurrent assets	24	-	-
Current assets	10	-	366
Noncurrent liabilities	(1,869)	(2,802)	(2,235)
Current liabilities	(105)	(418)	(924)
Net liabilities	(1,940)	(3,220)	(2,793)

Movements of mark-to-market losses for the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
(in million pesos)		
Net mark-to-market losses at beginning of the year	(3,220)	(2,793)
Gains (losses) on derivative financial instruments	816	(1,661)
Effective portion recognized in the profit or loss for the cash flow hedges	387	418
Settlements, accretions and conversions	156	785
Interest expense	(12)	-
Net gains (losses) on cash flow hedges charged to other comprehensive income	(67)	92
Discontinued operations (Note 2)	-	(61)
Net mark-to-market losses at end of the year	(1,940)	(3,220)

Analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
		(in million pesos)	
Gains (losses) on derivative financial instruments (Note 4)	816	(1,661)	560
Hedge cost	(305)	(320)	(363)
Net gains (losses) on derivative financial instruments	511	(1,981)	197
Discontinued operations (Notes 2 and 4)	-	(28)	4
Net gains (losses) on derivative financial instruments from continuing operations (Note 4)	511	(2,009)	201

PLDT

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

Interest Rate Swaps

On May 17, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on June 6, 2013) and in exchange, will pay a fixed rate of 1.945%.

On June 26, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.385%.

On July 19, 2013, PLDT entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.25%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at December 31, 2013, the mark-to-market gains of the interest swap with aggregate notional amount of US\$120 million and recognized in other comprehensive income amounted to Php11 million. There was no ineffective portion in the fair value of these instruments recognized in the consolidated income statement for the year ended December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

Long-term Currency Swaps

PLDT has entered into long-term principal only-currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php49.85 for the years ended December 31, 2013 and 2012, and Php50.45 for the year ended December 31, 2011. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.42% per annum for the years ended December 31, 2013 and 2012, and 3.04% per annum for the year ended December 31, 2011.

The long-term currency swaps that we entered to hedge the 2012 fixed rate notes with notional amount of US\$100 million matured on May 15, 2012, with total cash settlement of Php941 million. On various dates from August to November 2012, the long-term principal only-currency swap agreements maturing in 2017 were partially terminated, with a total aggregate settlement of Php256 million. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$202 million as at December 31, 2013 and 2012. The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php1,788 million and Php2,681 million as at December 31, 2013 and 2012, respectively. The mark-to-market losses of the 2012 and 2017 swaps with notional amounts of US\$100 million and US\$222 million, respectively, amounted to Php834 million and Php2,090 million, respectively, as at January 1, 2012.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only-currency swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cash flows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php356 million as at January 1, 2012. These overlay swaps matured on May 15, 2012, where PLDT received proceeds amounting to Php565 million. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

Short-term Currency Swaps

In November 2013, PLDT also entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar receipts for purposes of enhancing yields on our excess funds. The total outstanding swaps amounted to US\$6 million with U.S. dollar forward purchase leg booked at an average exchange rate of Php43.79 resulting to mark-to-market gains of Php4 million as at December 31, 2013. The spot leg of these swaps were sold at an average exchange rate of Php43.84. There were no outstanding short-term currency swaps and forward foreign exchange contracts as at December 31, 2012 and January 1, 2012.

PGIH

Short-term Currency Swaps

In November 2013, PGIH entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar cash for purposes of enhancing yields on the excess funds. The total outstanding swaps amounted to US\$10 million with U.S. dollar forward purchase leg booked at an average exchange rate of Php43.78 resulting to mark-to-market gains of Php6 million as at December 31, 2013. The spot leg of these swaps were sold at an average exchange rate of Php43.83. There were no outstanding short-term currency swaps and forward foreign exchange contracts as at December 31, 2012 and January 1, 2012.

DMPI

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million U.S. dollar Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. The outstanding notional amounts under this agreement amounted to US\$24 million, US\$31 million and US\$37 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. The mark-to-market losses amounted to Php70 million, Php102 million and Php125 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million U.S. dollar Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. The outstanding notional amounts under this agreement amounted to US\$20 million, US\$26 million and US\$32 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. The mark-to-market losses amounted to Php60 million, Php89 million and Php109 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

Smart

On May 8, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$37 million to hedge its interest rate exposure on the outstanding balance of the US\$60 million Loan Facility maturing in June 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on December 6, 2013) and in exchange, will pay a fixed rate of 1.527%. The outstanding notional amount under this agreement amounted to US\$37 million as at December 31, 2013. The mark-to-market losses amounted to Php5 million as at December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On May 9, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$38 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in August 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on February 19, 2014) and in exchange, will pay a fixed rate of 1.4275%. The outstanding notional amount under this agreement amounted to US\$38 million as at December 31, 2013. The mark-to-market losses amounted to Php6 million as at December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On May 16, 2013, Smart entered into a four-year interest rate swap agreement with a total notional amount of US\$39 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in May 2017 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on November 29, 2013) and in exchange, will pay a fixed rate of 1.77%. The outstanding notional amount under this agreement amounted to US\$39 million as at December 31, 2013. The mark-to-market losses amounted to Php6 million as at December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On July 18, 2013, Smart entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the US\$120 million Loan Facility maturing in June 2018 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on March 25, 2014) and in exchange, will pay a fixed rate of 2.36%. The outstanding notional amount under this agreement amounted to US\$40 million as at December 31, 2013. The mark-to-market losses amounted to Php26 million as at December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

The interest rate swap agreements were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at December 31, 2013, mark-to-market losses amounting to Php43 million was recognized in other comprehensive income and Php6 million was recorded as interest accrual on the interest swap with aggregate notional amount of US\$154 million. There was no ineffective portion in the fair value movements recognized in the consolidated income statement for the year ended December 31, 2013.

ePLDT Group

On July 10, 2012, ePLDT entered into an equity forward sale contract amounting to Php4,310 million in order to hedge its exposure to the volatility of the share price of Philweb when it sold its investment in 398 million common shares of Philweb at a certain price in four tranches, which is expected to be completed by the end of 2013. The first and second tranches were transacted on July 13, 2012 and October 19, 2012, respectively. Each tranche was for 93.5 million common shares and for a total purchase price of Php1 billion each. On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion. On December 13, 2013, the fourth tranche was paid for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche, or Php1.3 billion. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations* and *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment of ePLDT in Philweb*. The mark-to-market losses recognized in the profit or loss at the inception of this contract amounted to Php727 million. The gains and losses from the inception of this contract will be recognized in cumulative translation adjustments and are expected to be realized in profit or loss upon occurrence of each tranche. The mark-to-market loss transferred from cumulative translation adjustment to profit or loss in relation with the first and second tranches in 2012 amounted to Php387 million and Php396 million in relation with the third and fourth tranches in 2013 were recognized as a reduction on the gain on sale of Philweb shares presented as part of other income – net in our consolidated income

statements. The sale was completed on December 13, 2013, thus, no outstanding equity forward sale contract as at December 31, 2013. The mark-to-market losses as at December 31, 2012 amounted to Php348 million. The mark-to-market loss recognized for the years ended December 31, 2013 and 2012, representing the ineffective portion of the loss in the fair value of the contract, amounted to Php5 million and Php3 million, respectively,

SPi Group

In February and March 2011, SPi CRM and SPi entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses, respectively, maturing March 2011 up to October 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged.

On December 6, 2011, SPi CRM changed its functional currency from Philippine peso to U.S. dollar resulting for all its outstanding hedges to become ineffective starting from that date and mark-to-market gains and losses thereafter are recognized in profit or loss. The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges with notional amounts of US\$24 million and US\$29 million, respectively, amounted to Php9 million as at January 1, 2012. In January 2012, SPi CRM pre-terminated all outstanding ineffective hedges.

In March 2012, SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of its monthly peso denominated expenses maturing from June 29, 2012 to December 26, 2013. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly peso expenses hedged.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges and presented as part of derivative financial liabilities under liabilities directly associated with assets classified as held-for-sale with notional amounts of US\$29 million and US\$26 million, respectively, amounted to Php61 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts were no longer included in our consolidated financial statements since April 30, 2013, which is the closing date of the sale of our BPO segment.

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial liabilities are not reviewed in a timely manner and that our working capital requirements and planned capital expenditures are not met.

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

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

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains strong and more than sufficient to support our capital expenditure requirements and service our debt and financing obligations as a consequence of higher cash from operations following more rational competition for the wireless business and the expected growth in data revenues. Furthermore, we can easily tap bank credit facilities to settle obligations, as necessary. We have cash and cash equivalents, and short-term investments amounting to Php31,905 million and Php718 million, respectively, as at December 31, 2013, which we can use to meet our short-term liquidity needs. See *Note 15 – Cash and Cash Equivalents*.

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2013 and 2012, and January 1, 2012:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in million pesos)					
December 31, 2013					
<i>Loans and receivables:</i>	70,738	66,169	2,819	1,608	142
Advances and other noncurrent assets	10,384	7,987	958	1,297	142
Cash equivalents	25,967	25,967	–	–	–
Short-term investments	127	127	–	–	–
Investment in debt securities and other long-term investments	2,172	–	1,861	311	–
Retail subscribers	12,563	12,563	–	–	–
Corporate subscribers	7,904	7,904	–	–	–
Foreign administrations	5,840	5,840	–	–	–
Domestic carriers	1,461	1,461	–	–	–
Dealers, agents and others	4,320	4,320	–	–	–
<i>HTM investments:</i>	471	–	–	321	150
Investment in debt securities and other long-term investments	471	–	–	321	150
<i>Financial instruments at FVPL:</i>	591	591	–	–	–
Short-term investments	591	591	–	–	–
<i>Available-for-sale financial investments</i>	220	–	–	–	220
Total	72,020	66,760	2,819	1,929	512
December 31, 2012					
<i>Loans and receivables:</i>	70,437	69,158	686	453	140
Advances and other noncurrent assets	8,989	7,915	686	248	140
Cash equivalents	31,550	31,550	–	–	–
Short-term investments	24	24	–	–	–
Investment in debt securities and other long-term investments	205	–	–	205	–
Retail subscribers	10,568	10,568	–	–	–
Corporate subscribers	8,100	8,100	–	–	–
Foreign administrations	4,960	4,960	–	–	–
Domestic carriers	1,707	1,707	–	–	–
Dealers, agents and others	4,334	4,334	–	–	–
<i>HTM investments:</i>	150	150	–	–	–
Investment in debt securities and other long-term investments	150	150	–	–	–
<i>Financial instruments at FVPL:</i>	550	550	–	–	–
Short-term investments	550	550	–	–	–
<i>Available-for-sale financial investments</i>	5,651	–	–	–	5,651
Total	76,788	69,858	686	453	5,791
January 1, 2012					
<i>Loans and receivables:</i>	73,626	72,479	899	201	47
Advances and other noncurrent assets	1,165	18	899	201	47
Cash equivalents	41,420	41,420	–	–	–
Short-term investments	24	24	–	–	–
Retail subscribers	11,302	11,302	–	–	–
Corporate subscribers	9,200	9,200	–	–	–
Foreign administrations	4,961	4,961	–	–	–
Domestic carriers	1,323	1,323	–	–	–
Dealers, agents and others	4,231	4,231	–	–	–
<i>HTM investments:</i>	508	358	150	–	–
Investment in debt securities and other long-term investments	508	358	150	–	–
<i>Financial instruments at FVPL:</i>	534	534	–	–	–
Short-term investments	534	534	–	–	–
<i>Available-for-sale financial investments</i>	7,181	–	–	–	7,181
Total	81,849	73,371	1,049	201	7,228

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2013 and 2012, and January 1, 2012:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in million pesos)				
December 31, 2013					
<i>Debt⁽¹⁾:</i>	<i>123,623</i>	<i>2,774</i>	<i>48,824</i>	<i>35,908</i>	<i>36,117</i>
Principal	104,472	2,576	37,822	31,549	32,525
Interest	19,151	198	11,002	4,359	3,592
<i>Lease obligations:</i>	<i>14,574</i>	<i>7,711</i>	<i>3,198</i>	<i>2,016</i>	<i>1,649</i>
Operating lease	14,562	7,710	3,187	2,016	1,649
Finance lease	12	1	11	–	–
<i>Unconditional purchase obligations⁽²⁾</i>	<i>231</i>	<i>66</i>	<i>44</i>	<i>44</i>	<i>77</i>
<i>Other obligations:</i>	<i>109,405</i>	<i>84,869</i>	<i>14,841</i>	<i>7,627</i>	<i>2,068</i>
Derivative financial liabilities ⁽³⁾ :	2,274	92	923	1,259	–
Long-term currency swap	2,086	–	833	1,253	–
Interest rate swap	188	92	90	6	–
Various trade and other obligations:	107,131	84,777	13,918	6,368	2,068
Suppliers and contractors	49,314	29,799	13,183	6,332	–
Utilities and related expenses	31,576	31,483	68	5	20
Liability from redemption of preferred shares	7,952	7,952	–	–	–
Employee benefits	5,350	5,350	–	–	–
Customers' deposits	2,545	–	466	31	2,048
Carriers	2,264	2,264	–	–	–
Dividends	932	932	–	–	–
Others	7,198	6,997	201	–	–
Total contractual obligations	247,833	95,420	66,907	45,595	39,911
December 31, 2012 (As Adjusted – Note 2)					
<i>Debt⁽¹⁾:</i>	<i>144,467</i>	<i>3,981</i>	<i>56,353</i>	<i>48,417</i>	<i>35,716</i>
Principal	117,115	3,641	41,469	42,492	29,513
Interest	27,352	340	14,884	5,925	6,203
<i>Lease obligations:</i>	<i>13,655</i>	<i>7,059</i>	<i>3,641</i>	<i>1,832</i>	<i>1,123</i>
Operating lease	13,634	7,057	3,623	1,831	1,123
Finance lease	21	2	18	1	–
<i>Unconditional purchase obligations⁽²⁾</i>	<i>413</i>	<i>167</i>	<i>246</i>	<i>–</i>	<i>–</i>
<i>Other obligations:</i>	<i>105,492</i>	<i>80,443</i>	<i>12,505</i>	<i>10,515</i>	<i>2,029</i>
Derivative financial liabilities ⁽³⁾ :	3,507	418	871	2,218	–
Long-term currency swap	2,968	–	770	2,198	–
Equity forward sale contract	348	348	–	–	–
Interest rate swap	191	70	101	20	–
Various trade and other obligations:	101,985	80,025	11,634	8,297	2,029
Suppliers and contractors	45,331	26,128	10,942	8,261	–
Utilities and related expenses	31,305	31,098	202	5	–
Liability from redemption of preferred shares	7,884	7,884	–	–	–
Employee benefits	5,488	5,488	–	–	–
Customers' deposits	2,529	–	469	31	2,029
Carriers	2,007	2,007	–	–	–
Dividends	827	827	–	–	–
Others	6,614	6,593	21	–	–
Total contractual obligations	264,027	91,650	72,745	60,764	38,868

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
January 1, 2012	(in million pesos)				
<i>Debt</i> ⁽¹⁾ :	142,271	16,378	62,213	39,476	24,204
Principal	119,410	15,348	48,141	33,971	21,950
Interest	22,861	1,030	14,072	5,505	2,254
<i>Lease obligations</i> :	17,826	6,352	5,324	2,998	3,152
Operating lease	17,810	6,349	5,317	2,992	3,152
Finance lease	16	3	7	6	–
<i>Unconditional purchase obligations</i> ⁽²⁾	674	279	263	132	–
<i>Other obligations</i> :	91,828	66,223	14,976	7,072	3,557
Derivative financial liabilities ⁽³⁾ :	3,789	589	1,026	701	1,473
Long-term currency swap	3,552	500	907	673	1,472
Interest rate swap	237	89	119	28	1
Various trade and other obligations:	88,039	65,634	13,950	6,371	2,084
Suppliers and contractors	45,604	25,476	13,761	6,367	–
Utilities and related expenses	23,839	23,834	5	–	–
Employee benefits	4,452	4,452	–	–	–
Dividends	2,583	2,583	–	–	–
Customers' deposits	2,272	–	184	4	2,084
Carriers	1,642	1,642	–	–	–
Others	7,647	7,647	–	–	–
Total contractual obligations	252,599	89,232	82,776	49,678	30,913

(1) Consists of long-term debt, including current portion, and notes payable; gross of unamortized debt discount and debt issuance costs.

(2) Based on the Amended ATPA with AIL. See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Party Agreements.

(3) Gross liabilities before any offsetting application.

Debt

See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt for a detailed discussion of our debt.

Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31,		January 1,
	2013	2012	2012
	(in million pesos)		
Within one year	7,809	7,136	6,423
After one year but not more than five years	5,104	5,375	8,235
More than five years	1,649	1,123	3,152
	14,562	13,634	17,810

Finance Lease Obligations

See Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases for the detailed discussion of our long-term finance lease obligations.

Unconditional Purchase Obligations

See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php231 million, Php413 million and Php674 million as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Other Obligations – Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividend distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php107,131 million, Php101,895 million and Php88,039 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php20 million, Php342 million and Php913 million as at December 31, 2013 and 2012, and January 1, 2012, respectively. These commitments will expire within one year.

Collateral

We have not made any pledges with respect to our financial liabilities as at December 31, 2013 and 2012, and January 1, 2012.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange sale and purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative conversion adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2013 and 2012, and January 1, 2012:

	December 31,				January 1,	
	2013		2012		2012	
	U.S. Dollar	Php ⁽¹⁾	U.S. Dollar	Php ⁽²⁾	U.S. Dollar	Php ⁽³⁾
	(in millions)					
Noncurrent Financial Assets						
Investment in debt securities and other long-term investments	49	2,172	5	205	–	–
Derivative financial assets	1	24	–	–	–	–
Advances and other noncurrent assets	1	32	1	28	2	83
Total noncurrent financial assets	51	2,228	6	233	2	83
Current Financial Assets						
Cash and cash equivalents	145	6,450	128	5,267	165	7,248
Short-term investments	13	591	14	562	12	540
Trade and other receivables – net	173	7,685	179	7,360	215	9,445
Derivative financial assets	–	10	–	–	8	366
Total current financial assets	331	14,736	321	13,189	400	17,599
Total Financial Assets	382	16,964	327	13,422	402	17,682
Noncurrent Financial Liabilities						
Interest-bearing financial liabilities – net of current portion	1,047	46,477	1,058	43,442	906	39,806
Derivative financial liabilities	42	1,869	68	2,802	51	2,235
Total noncurrent financial liabilities	1,089	48,346	1,126	46,244	957	42,041
Current Financial Liabilities						
Accounts payable	166	7,381	165	6,762	198	8,688
Accrued expenses and other current liabilities	125	5,552	166	6,832	129	5,677
Current portion of interest-bearing financial liabilities	292	12,966	221	9,065	349	15,328
Derivative financial liabilities	2	105	2	70	21	924
Total current financial liabilities	585	26,004	554	22,729	697	30,617
Total Financial Liabilities	1,674	74,350	1,680	68,973	1,654	72,658

⁽¹⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php44.40 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2013.

⁽²⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php41.08 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2012.

⁽³⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at January 1, 2012.

As at March 28, 2014, the Philippine peso-U.S. dollar exchange rate was Php45.00 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php775 million as at December 31, 2013.

Approximately 57%, 45% and 47% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2013 and 2012, and January 1, 2012, respectively. Consolidated foreign currency-denominated debt decreased to Php59,132 million as at December 31, 2013 from Php52,298 million as at December 31, 2012 and Php54,877 million as at January 1, 2012. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts was US\$202 million as at December 31, 2013 and 2012, and US\$262 million as at January 1, 2012. Consequently, the unhedged portion of our consolidated debt amounts was approximately 48% (or 41%, net of our consolidated U.S. dollar cash balances), 38% (or 33%, net of our consolidated U.S. dollar cash balances) and 37% (or 30%, net of consolidated U.S. dollar cash balances) as at December 31, 2013 and 2012, and January 1, 2012, respectively.

Approximately, 21% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the years ended December 31, 2013 and 2012 as compared with approximately 30% for the year ended December 31, 2011. Our consolidated expenses denominated in U.S. dollars and/or linked to U.S. dollars was approximately 11% for the year ended December 31, 2013 as compared with approximately 12% and 17% for the years ended December 31, 2012 and 2011, respectively. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso depreciated by 8.08% against the U.S. dollar to Php44.40 to US\$1.00 as at December 31, 2013 from Php41.08 to US\$1.00 as at December 31, 2012. As at December 31, 2012, the Philippine peso had appreciated by 6.47% against the U.S. dollar to Php41.08 to US\$1.00 from Php43.92 to US\$1.00 as at January 1, 2012. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php2,893 million and Php735 million for the years ended December 31, 2013 and 2011, respectively, while we recognized net consolidated foreign exchange gains of Php3,282 million for the year ended December 31, 2012. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until our next reporting date of March 31, 2014. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 1% as compared to the exchange rate of Php44.40 to US\$1.00 as at December 31, 2013. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 1% as at December 31, 2013, with all other variables held constant, profit after tax for the year ended 2013 would have been approximately Php305 million higher/lower and our consolidated stockholders' equity as at year end 2013 would have been approximately Php301 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2013 and 2012, and January 1, 2012. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2013

	In U.S. Dollars						Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total			In U.S. Dollar	In Php	
(in millions)											
Assets:											
<i>Investment in Debt Securities and Other Long-term Investments</i>											
U.S. Dollar	-	-	42	7	-	49	2,172	-	2,172	49	2,185
Interest rate	-	-	10.0000%	3.5000 to 4.0000%	-	-	-	-	-	-	-
Philippine Peso	-	-	-	7	3	10	471	-	471	11	483
Interest rate	-	-	-	4.2500%	4.8370%	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	20	-	-	-	-	20	882	-	882	20	882
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	97	-	-	-	-	97	4,303	-	4,303	97	4,303
Interest rate	0.0010% to 2.0000%	-	-	-	-	-	-	-	-	-	-
Other Currencies	2	-	-	-	-	2	96	-	96	2	96
Interest rate	0.0100% to 0.5000%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	116	-	-	-	-	116	5,164	-	5,164	116	5,164
Interest rate	0.2500% to 4.0000%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	469	-	-	-	-	469	20,803	-	20,803	469	20,803
Interest rate	0.5600% to 4.7500%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	13	-	-	-	-	13	591	-	591	13	591
Interest rate	0.6050%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	3	-	-	-	-	3	127	-	127	3	127
Interest rate	1.5000%	-	-	-	-	-	-	-	-	-	-
	720	-	42	14	3	779	34,609	-	34,609	780	34,634

	In U.S. Dollars						Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total			In U.S. Dollar	In Php	
(in millions)											
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	-	-	234	-	234	10,401	67	10,334	274	12,160
Interest rate	-	-	-	8.3500%	-	-	-	-	-	-	-
U.S. Dollar Fixed Loans	-	65	26	33	-	124	5,493	99	5,394	126	5,598
Interest rate	-	1.4100% to 3.9550%	1.4100% to 3.9550%	1.4100% to 3.9550%	-	-	-	-	-	-	-
Philippine Peso Interest rate	17 6.3981%	29 3.9250% to 6.2600%	14 3.9250% to 6.2600%	197 3.9250% to 6.3462%	647 3.9250% to 6.3462%	904	40,125	46	40,079	949	42,120
<i>Variable Rate</i>											
U.S. Dollar Interest rate	21 0.3500% to 1.8000% over LIBOR	480 0.3000% to 1.9000% over LIBOR	235 0.3000% to 1.9000% over LIBOR	245 0.3000% to 1.9000% over LIBOR	-	981	43,560	156	43,404	981	43,560
Philippine Peso Interest rate	20 PHP PDST-F + 0.3000%	2 BSP overnight rate - 0.3500%	1 BSP overnight rate - 0.3500%	1 BSP overnight rate - 0.3500%	86 BSP overnight rate - 0.3500%	110	4,893	14	4,879	110	4,893
	58	576	276	710	733	2,353	104,472	382	104,090	2,440	108,331

As at December 31, 2012

	In U.S. Dollars						Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total			In U.S. Dollar	In Php	
(in millions)											
Assets:											
<i>Investment in Debt</i>											
<i>Securities and Other</i>											
<i>Long-term Investments</i>											
U.S. Dollar	-	-	-	5	-	5	205	-	205	5	219
Interest rate	-	-	-	4.0000%	-	-	-	-	-	-	-
Philippine Peso	4	-	-	-	-	4	150	-	150	4	154
Interest rate	7.0000%	-	-	-	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	37	-	-	-	-	37	1,529	-	1,529	37	1,529
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	84	-	-	-	-	84	3,445	-	3,445	84	3,445
Interest rate	0.1000% to 3.0000%	-	-	-	-	-	-	-	-	-	-
Other Currencies	4	-	-	-	-	4	161	-	161	4	161
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	74	-	-	-	-	74	3,062	-	3,062	74	3,062
Interest rate	0.2500% to 4.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	694	-	-	-	-	694	28,488	-	28,488	694	28,488
Interest rate	1.1250% to 5.0000%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	14	-	-	-	-	14	557	-	557	14	557
Interest rate	9.1730%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	-	-	-	-	-	-	17	-	17	-	17
Interest rate	3.0000%	-	-	-	-	-	-	-	-	-	-
	911	-	-	5	-	916	37,614	-	37,614	916	37,632
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	-	-	234	-	234	9,623	79	9,544	283	11,644
Interest rate	-	-	-	8.3500%	-	-	-	-	-	-	-
U.S. Dollar Fixed Loans	5	337	23	32	9	406	16,674	1,143	15,531	410	16,843
Interest rate	3.7900%	1.9000% to 3.9550%	1.9000% to 3.9550%	1.9000% to 3.9550%	3.9550%	-	-	-	-	-	-
Philippine Peso	-	35	132	522	686	1,375	56,469	45	56,424	1,475	60,576
Interest rate	-	4.9110% to 7.7946%	4.9110% to 7.7946%	4.9110% to 7.7946%	4.9110% to 7.7946%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar Interest rate	27 0.4000% to 0.5000% over LIBOR	312 0.3000% to 1.9000% over LIBOR	127 0.3000% to 1.9000% over LIBOR	175 0.3000% to 1.9000% over LIBOR	23 1.8000% over LIBOR	664	27,278	55	27,223	664	27,278
Philippine Peso Interest rate	55 PHP PDST-F + 0.3000%	45 PHP PDST-F + 0.3000%	-	72 BSP overnight rate + 0.3000% to 0.5000%	-	172	7,071	1	7,070	172	7,071
	87	729	282	1,035	718	2,851	117,115	1,323	115,792	3,004	123,412

As at January 1, 2012

	In U.S. Dollars						In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total				In U.S. Dollar	In Php
(in millions)											
Assets:											
<i>Investment in Debt Securities and Other Long-term Investments</i>											
Philippine Peso	8	4	-	-	-	12	508	-	508	12	516
Interest rate	6.8750%	7.0000%	-	-	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	14	-	-	-	-	14	626	-	626	14	626
Interest rate	0.0100% to 0.7663%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	66	-	-	-	-	66	2,886	-	2,886	66	2,886
Interest rate	0.0100% to 3.1500%	-	-	-	-	-	-	-	-	-	-
Other Currencies	5	-	-	-	-	5	218	-	218	5	218
Interest rate	0.0100% to 2.0000%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	133	-	-	-	-	133	5,824	-	5,824	133	5,824
Interest rate	0.2500% to 1.7000%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	810	-	-	-	-	810	35,596	-	35,596	810	35,596
Interest rate	1.0000% to 4.8750%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	12	-	-	-	-	12	540	-	540	12	540
Interest rate	3.1020%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	-	-	-	-	-	-	18	-	18	-	18
Interest rate	3.5000%	-	-	-	-	-	-	-	-	-	-
	1,048	4	-	-	-	1,052	46,216	-	46,216	1,052	46,224
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	146	-	-	-	234	380	16,691	124	16,567	427	18,740
Interest rate	11.3750%	-	-	-	8.3500%	-	-	-	-	-	-
U.S. Dollar Fixed Loans	-	53	302	28	21	404	17,738	1,900	15,838	359	15,770
Interest rate	-	2.9900% to 3.9550%	2.2500% to 3.9550%	2.9900% to 3.9550%	3.9550%	-	-	-	-	-	-
Philippine Peso	121	137	122	590	187	1,157	50,818	38	50,780	1,194	52,454
Interest rate	5.6250% to 6.5708%	5.4692% to 8.4346%	5.4692% to 9.1038%	5.4963% to 9.1038%	5.4963% to 9.1038%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar	11	242	73	94	58	478	20,996	71	20,925	476	20,925
Interest rate	US\$ LIBOR + 0.7500%	US\$ LIBOR + 0.3000% to 1.8500%	US\$ LIBOR + 0.3000% to 1.8500%	US\$ LIBOR + 0.3000% to 1.8000%	US\$ LIBOR + 0.3000% to 1.8000%	-	-	-	-	-	-
Philippine Peso	1	147	20	61	-	229	10,059	3	10,056	229	10,056
Interest rate	PDST-F + 1.3750%	PDST-F + 0.3000%	PDST-F + 0.3000%	BSP overnight rate + 0.3000% to 0.5000%	-	-	-	-	-	-	-
<i>Short-term Debt</i>											
<i>Notes Payable</i>											
U.S. Dollar	35	-	-	-	-	35	1,537	-	1,537	35	1,537
Interest rate	Bank's prime rate	-	-	-	-	-	-	-	-	-	-
Philippine Peso	36	-	-	-	-	36	1,572	-	1,572	36	1,572
Interest rate	4.0000%	-	-	-	-	-	-	-	-	-	-
	350	579	517	773	500	2,719	119,411	2,136	117,275	2,756	121,054

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

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of March 31, 2014. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points and 135 basis points higher/lower, respectively, as compared to levels as at December 31, 2013. If U.S. dollar interest rates had been 5 basis points higher/lower, as compared to market levels as at December 31, 2013, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2013 would have been approximately Php16 million and Php67 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 135 basis points higher/lower as compared to market levels as at December 31, 2013, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2013 would have been approximately Php274 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

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

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at December 31, 2013 and 2012, and January 1, 2012:

	December 31, 2013		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
	(in million pesos)		
<i>Loans and receivables:</i>			
Advances and other noncurrent assets	10,272	–	10,272
Cash and cash equivalents	31,905	241	31,664
Short-term investments	127	–	127
Investment in debt securities and other long-term investments	2,172	–	2,172
Foreign administrations	5,721	–	5,721
Retail subscribers	5,414	41	5,373
Corporate subscribers	2,055	135	1,920
Domestic carriers	1,381	–	1,381
Dealers, agents and others	2,993	1	2,992
<i>HTM investments:</i>			
Investment in debt securities and other long-term investments	471	–	471
<i>Available-for-sale financial investments</i>	220	–	220
<i>Financial instruments at FVPL:</i>			
Short-term investments	591	–	591
Short-term currency swaps	10	–	10
<i>Derivatives used for hedging:</i>			
Interest rate swap	24	–	24
Total	63,356	418	62,938

* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2013.

	December 31, 2012		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
	(in million pesos)		
<i>Loans and receivables:</i>			
Advances and other noncurrent assets	8,877	12	8,865
Cash and cash equivalents	37,161	528	36,633
Short-term investments	24	–	24
Investment in debt securities and other long-term investments	205	–	205
Foreign administrations	4,861	–	4,861
Retail subscribers	4,079	27	4,052
Corporate subscribers	1,963	246	1,717
Domestic carriers	1,601	–	1,601
Dealers, agents and others	3,875	31	3,844
<i>HTM investments:</i>			
Investment in debt securities and other long-term investments	150	–	150
<i>Available-for-sale financial investments</i>	5,651	–	5,651
<i>Financial instruments at FVPL:</i>			
Short-term investments	550	–	550
Total	68,997	844	68,153

* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2012.

	January 1, 2012		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
	(in million pesos)		
<i>Loans and receivables:</i>			
Advances and other noncurrent assets	1,165	13	1,152
Cash and cash equivalents	46,057	574	45,483
Short-term investments	24	–	24
Foreign administrations	4,762	69	4,693
Retail subscribers	4,038	63	3,975
Corporate subscribers	2,708	213	2,495
Domestic carriers	1,212	–	1,212
Dealers, agents and others	3,525	28	3,497
<i>HTM investments:</i>			
Investment in debt securities and other long-term investments	508	–	508
<i>Available-for-sale financial investments</i>	7,181	–	7,181
<i>Financial instruments at FVPL:</i>			
Short-term investments	534	–	534
Long-term currency swaps	356	–	356
<i>Derivatives used for hedging:</i>			
Forward foreign exchange contracts	10	–	10
Total	72,080	960	71,120

* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at January 1, 2012.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2013 and 2012, and January 1, 2012:

	Total	Neither past due nor impaired		Past due but not impaired	
		Class A ⁽¹⁾	Class B ⁽²⁾	not impaired	Impaired
	(in million pesos)				
December 31, 2013					
<i>Loans and receivables:</i>	76,676	46,362	7,772	7,906	14,636
Advances and other noncurrent assets	10,384	10,241	22	9	112
Cash and cash equivalents	31,905	29,129	2,776	–	–
Short-term investments	127	127	–	–	–
Investment in debt securities and other long-term investments	2,172	2,172	–	–	–
Retail subscribers	12,563	1,318	1,822	2,274	7,149
Corporate subscribers	7,904	698	343	1,014	5,849
Foreign administrations	5,840	1,242	1,765	2,714	119
Domestic carriers	1,461	350	22	1,009	80
Dealers, agents and others	4,320	1,085	1,022	886	1,327
<i>HTM investments:</i>	471	471	–	–	–
Investment in debt securities and other long-term investments	471	471	–	–	–
<i>Available-for-sale financial investments</i>	220	166	54	–	–
<i>Financial instruments at FVPL⁽³⁾:</i>	601	601	–	–	–
Short-term investments	591	591	–	–	–
Short-term currency swaps	10	10	–	–	–
<i>Derivatives used for hedging:</i>	24	24	–	–	–
Interest rate swaps	24	24	–	–	–
Total	77,992	47,624	7,826	7,906	14,636

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A ⁽¹⁾	Class B ⁽²⁾		
(in million pesos)					
December 31, 2012					
<i>Loans and receivables:</i>	76,048	47,710	6,682	8,254	13,402
Advances and other noncurrent assets	8,989	8,848	3	26	112
Cash and cash equivalents	37,161	34,381	2,780	–	–
Short-term investments	24	24	–	–	–
Investment in debt securities and other long-term investments	205	205	–	–	–
Retail subscribers	10,568	967	989	2,123	6,489
Corporate subscribers	8,100	478	540	945	6,137
Foreign administrations	4,960	1,043	923	2,895	99
Domestic carriers	1,707	266	27	1,308	106
Dealers, agents and others	4,334	1,498	1,420	957	459
<i>Available-for-sale financial investments</i>	5,651	159	5,492	–	–
<i>Financial instruments at FVPL⁽³⁾:</i>	550	550	–	–	–
Short-term investments	550	550	–	–	–
<i>HTM investments:</i>	150	150	–	–	–
Investment in <i>debt</i> securities and other long-term investments	150	150	–	–	–
Total	82,399	48,569	12,174	8,254	13,402
January 1, 2012					
<i>Loans and receivables:</i>	78,263	51,689	5,117	6,685	14,772
Advances and other noncurrent assets	1,165	1,128	37	–	–
Cash and cash equivalents	46,057	44,885	1,172	–	–
Short-term investments	24	24	–	–	–
Retail subscribers	11,302	1,449	1,050	1,539	7,264
Corporate subscribers	9,200	974	375	1,359	6,492
Foreign administrations	4,961	1,309	1,242	2,211	199
Domestic carriers	1,323	215	24	973	111
Dealers, agents and others	4,231	1,705	1,217	603	706
<i>HTM investments:</i>	508	508	–	–	–
Investment in debt securities	508	508	–	–	–
<i>Available-for-sale financial assets</i>	7,181	150	7,031	–	–
<i>Financial instruments at FVPL⁽³⁾:</i>	890	890	–	–	–
Short-term investments	534	534	–	–	–
Long-term currency swaps	356	356	–	–	–
<i>Derivatives used for hedging:</i>	10	10	–	–	–
Forward foreign exchange contracts	10	10	–	–	–
Total	86,852	53,247	12,148	6,685	14,772

⁽¹⁾ This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.

⁽²⁾ This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.

⁽³⁾ Gross receivables from counterparties before any offsetting arrangements.

The aging analysis of past due but not impaired class of financial assets as at December 31, 2013 and 2012, and January 1, 2012 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
December 31, 2013						
<i>Loans and receivables:</i>	76,676	54,134	3,303	787	3,816	14,636
Advances and other noncurrent assets	10,384	10,263	1	–	8	112
Cash and cash equivalents	31,905	31,905	–	–	–	–
Short-term investments	127	127	–	–	–	–
Investment in debt securities and other long-term investments	2,172	2,172	–	–	–	–
Retail subscribers	12,563	3,140	1,615	172	487	7,149
Corporate subscribers	7,904	1,041	384	224	406	5,849
Foreign administrations	5,840	3,007	740	158	1,816	119
Domestic carriers	1,461	372	129	134	746	80
Dealers, agents and others	4,320	2,107	434	99	353	1,327
<i>HTM investments:</i>	471	471	–	–	–	–
Investment in debt securities and other long-term investments	471	471	–	–	–	–
<i>Available-for-sale financial investments</i>	220	220	–	–	–	–
<i>Financial instruments at FVPL:</i>	601	601	–	–	–	–
Short-term investments	591	591	–	–	–	–
Short-term currency swpas	10	10	–	–	–	–
<i>Derivatives used for hedging:</i>	24	24	–	–	–	–
Interest rate swpas	24	24	–	–	–	–
Total	77,992	55,450	3,303	787	3,816	14,636
December 31, 2012						
<i>Loans and receivables:</i>	76,048	54,392	3,017	1,079	4,158	13,402
Advances and other noncurrent assets	8,989	8,851	–	–	26	112
Cash and cash equivalents	37,161	37,161	–	–	–	–
Short-term investments	24	24	–	–	–	–
Investment in debt securities and other long-term investments	205	205	–	–	–	–
Retail subscribers	10,568	1,956	1,363	270	490	6,489
Corporate subscribers	8,100	1,018	351	198	396	6,137
Foreign administrations	4,960	1,966	645	452	1,798	99
Domestic carriers	1,707	293	174	144	990	106
Dealers, agents and others	4,334	2,918	484	15	458	459
<i>HTM investments:</i>	150	150	–	–	–	–
Investment in debt securities and other long-term investments	150	150	–	–	–	–
<i>Available-for-sale financial investments</i>	5,651	5,651	–	–	–	–
<i>Financial instruments at FVPL:</i>	550	550	–	–	–	–
Short-term investments	550	550	–	–	–	–
Total	82,399	60,743	3,017	1,079	4,158	13,402

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
January 1, 2012						
<i>Loans and receivables:</i>	78,263	56,806	3,087	1,068	2,530	14,772
Advances and other noncurrent assets	1,165	1,165	–	–	–	–
Cash and cash equivalents	46,057	46,057	–	–	–	–
Short-term investments	24	24	–	–	–	–
Retail subscribers	11,302	2,499	1,202	226	111	7,264
Corporate subscribers	9,200	1,349	706	263	390	6,492
Foreign administrations	4,961	2,551	897	282	1,032	199
Domestic carriers	1,323	239	100	98	775	111
Dealers, agents and others	4,231	2,922	182	199	222	706
<i>HTM investments:</i>	508	508	–	–	–	–
Investment in debt securities	508	508	–	–	–	–
<i>Available-for-sale financial assets</i>	7,181	7,181	–	–	–	–
<i>Financial instruments at FVPL:</i>	890	890	–	–	–	–
Short-term investments	534	534	–	–	–	–
Long-term currency swaps	356	356	–	–	–	–
<i>Derivatives used for hedging:</i>	10	10	–	–	–	–
Forward foreign exchange contracts	10	10	–	–	–	–
Total	86,852	65,395	3,087	1,068	2,530	14,772

Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core EPS. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We did not buy back any shares of common stock in 2013.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated 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), excluding discontinued operations. Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2013 and 2012, and January 1, 2012:

	December 31,		January 1,
	2013	2012	2012
		(As Adjusted – Note 2)	
		(in million pesos)	
Long-term debt, including current portion (Note 20)	104,090	115,792	114,166
Notes payable (Note 20)	–	–	3,109
Total consolidated debt	104,090	115,792	117,275
Cash and cash equivalents (Note 15)	(31,905)	(37,161)	(46,057)
Short-term investments	(718)	(574)	(558)
Net consolidated debt	71,467	78,057	70,660
Equity attributable to equity holders of PLDT	137,147	145,550	153,860
Net consolidated debt to equity ratio	52%	54%	46%

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2013, 2012 and 2011.

28. Cash Flow Information

The table below shows non-cash activities for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
		(in million pesos)	
Shares issued for settlement of the purchase price of Digitel shares tendered by the noncontrolling Digitel stockholders	–	4,401	64,492
Put option liability for the mandatory tender offer (Notes 13 and 23)	–	–	4,940
Liability from redemption of preferred shares which consists of the following:			
Recognition of asset retirement obligations (Note 21)	32	290	29
Preferred shares redeemed (Note 19)	–	4,029	–
Unclaimed dividends from stock agent form part of trust account	–	2,323	–
Unpaid dividends for preferred shares redeemed	–	1,821	–



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company
Ramon Cojuangco Building
Makati Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Long Distance Telephone Company and its subsidiaries as at December 31, 2013, 2012 and January 1, 2012, and for each of the three years in the period ended December 31, 2013, included in this Form 17 A, and have issued our report thereon dated March 4, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Partner

CPA Certificate No. 46047

SEC Accreditation No. 0077-AR-3 (Group A),

February 21, 2013, valid until February 20, 2016

Tax Identification No. 102-085-577

BIR Accreditation No. 08-001998-17-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225167, January 2, 2014, Makati City

March 4, 2014



SUPPLEMENTARY SCHEDULES

Schedule A. Financial Assets December 31, 2013

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Balance Sheet	Valued Based on Market Quotation at Balance Sheet Date	Income Received and Accrued
(in millions)				
Available-for-sale financial investments				
Listed equity securities	various	Php97	Php89	Php-
Others	various	123	N/A	-
	-	Php220	N/A	Php-

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements December 31, 2013

	Beginning Balances	Additions	Collections	Ending Balances
(in millions)				
Digital Telecommunications Phils., Inc.	Php31,080	Php140,204	(Php139,818)	Php31,466
Smart Communications, Inc.	20,678	22,315	(27,171)	15,822
Philippine Long Distance Telephone Company	1,302	1,854	(2,239)	917
Philcom Corporation	1,201	381	(14)	1,568
SPI Global Holdings, Inc	411	24	(435)	-
SmartBroadband, Inc.	389	387	(651)	125
ePLDT, Inc.	180	1,732	(1,530)	382
PLDT Global Corporation	163	632	(428)	367
Pilipinas Global Network Limited	125	32	(3)	154
Digital Mobile Philippines, Inc.	122	3,943	(3,319)	746
PLDT-Maratel, Inc.	107	155	(228)	34
SPi CRM, Inc.	63	215	(279)	(1)
SPi Technologies, Inc.	61	109	(169)	1
PLDT Subic Telecom, Inc.	47	61	(68)	40
Pilipinas Global Network Limited ROHQ Phils.	43	62	-	105
iPlus Intelligent Network, Inc.	19	11	(28)	2
IP Converge Data Services, Inc.	14	43	(51)	6
PLDT Clark Telecom, Inc.	11	31	(20)	22
Pilipinas Global Network Limited US	10	5	-	15
Bonifacio Communications Corporation	9	25	(24)	10
ePDS, Inc.	8	1	(3)	6
Smart Hub Incorporated	5	11	(7)	9
PLDT (SG) Pte Ltd	5	1	-	6
ACeS Philippines Cellular Satellite Corporation	4	3	(3)	4
I-Contacts Corporation	3	33	(37)	(1)
BayanTrade	2	13	(14)	1
Infocom Technologies, Inc.	2	1	(2)	1
PLDT (HK) Limited	2	3	(1)	4
Primeworld Digital Systems, Inc.	2	4	(1)	5
Chikka Holdings Limited	1	8	(6)	3
netGames, Inc.	1	-	(1)	-
Pilipinas Global Network Limited Canada	1	2	-	3
Voyager, Inc.	-	1	-	1
	Php56,071	Php172,307	(Php176,554)	Php51,824

All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.

Schedule D. Goodwill and Intangible Assets
December 31, 2013

Description	Beginning Balances	Additions At Cost	Charged to Cost and Expenses ⁽¹⁾	Charged to Other Accounts	Other Changes Additions (Deductions) ⁽²⁾	Ending Balances
(in millions)						
Intangible Assets with definite life						
Customer list	Php4,004	Php-	(Php515)	Php-	-	Php3,489
Franchise	2,799	-	(186)	-	-	2,613
Spectrum	536	-	(81)	-	-	455
Licenses	73	-	(225)	-	801	649
Others	93	-	(13)	-	-	80
Intangible Assets with indefinite life						
Trademark	4,505	-	-	-	-	4,505
	12,010	-	(1,020)	-	801	11,791
Goodwill	62,240	-	-	-	(113)	62,127
	Php74,250	Php-	(Php1,020)	Php-	Php688	Php73,918

⁽¹⁾ Represents amortization of intangible assets.

⁽²⁾ Represents acquired licenses by Smart (see Note 14 – Goodwill and Intangible Assets to the accompanying audited consolidated financial statements)

Schedule E. Interest-bearing Financial Liabilities
December 31, 2013

Name of Issuer and Type of Obligation	Total Outstanding Balances	Amount shown as Current	Amount shown as Noncurrent
(in millions)			
<i>U.S. Dollar Debts:</i>			
Export Credit Agencies-Supported Loans:			
China Export and Credit Insurance Corporation, or Sinosure			
Societe Generale and Calyon US\$12.707M	Php77	Php77	Php-
ING Bank US\$11.993M	31	31	-
ING Bank US\$21.020M	198	132	66
ING Bank US\$12.106M	115	77	38
ING Bank US\$23.778M	452	151	301
ING Bank US\$5.499M	105	35	70
ING Bank US\$4.928M	94	31	63
China CITIC Bank US\$49.908M	1,203	301	902
HSBC and China Development Bank US\$117.306M	2,899	689	2,210
	5,174	1,524	3,650
Exportkreditnamnden, or EKN			
Nordea Bank US\$18.659M	143	95	48
ING Bank US\$43.195M	142	142	-
ING Bank Societe Generale and Calyon US\$59.177M	1,049	300	749
ING Bank Societe Generale and Calyon US\$51.155M	911	260	651
SEK Nordea US\$45.5M	787	218	569
SEK Nordea US\$49M	1,474	417	1,057
	4,506	1,432	3,074
EKN and AB Svensk Exportkredit, SEK			
Nordea Bank and ING Bank N.V. – US\$96.6M	2,476	518	1,958
	2,476	518	1,958
Finnvera, Plc, or Finnvera			
Finnish Export Credit, Plc (Calyon) – US\$50M	442	442	-
Finnish Export Credit, Citicorp – US\$50M	656	435	221
	1,098	877	221
Others			
ING Bank US\$6.037M (Atradius)	17	17	-
	17	17	-

Name of Issuer and Type of Obligation	Total Outstanding Balances	Amount shown as Current	Amount shown as Noncurrent
	(in millions)		
Fixed Rate Notes			
Deutsche Bank – US\$300M Notes Due 2017 (8.35%)	Php10,401	Php–	Php10,401
Unamortized debt issuance cost	(67)	(19)	(48)
	10,334	(19)	10,353
Term Loans:			
GSM Network Expansion Facility			
Finnish Export Credit, Plc ABN AMRO Bank N.V. US\$50M	222	222	–
The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$60M	1,665	666	999
Finnish Export Credit Plc US\$50M	1,657	550	1,107
The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$50M	1,707	484	1,223
	5,251	1,922	3,329
Others			
The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$50M	1,030	231	799
Mizuho Corporate Bank, Sumitomo Mitsui Banking Corporation Facility	5,238	633	4,605
Chinabank US\$80M	3,197	711	2,486
Chinabank US\$35M	1,398	310	1,088
The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$300M	13,319	2,960	10,359
The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$150M	5,180	1,480	3,700
Citibank N. A. US\$25M	914	261	653
	30,276	6,586	23,690
Philippine Peso Debts:			
Corporate Notes			
Smart Fixed Rate Corporate Notes (2011) Php2B	750	750	–
Smart Fixed Rate Corporate Notes (2012) Php5.5B	4,069	41	4,028
PLDT Fixed Rate Corporate Notes (2012) Php1.5B	297	3	294
PLDT Fixed Rate Corporate Notes (2012) Php8.8B	6,678	68	6,610
PLDT Fixed Rate Corporate Notes (2012) Php6.2B	6,138	62	6,076
Smart Fixed Rate Corporate Notes (2013) Php1.376B	1,345	9	1,336
PLDT Fixed Rate Corporate Notes (2013) Php2.055B	2,034	20	2,014
PLDT Fixed Rate Corporate Notes (2013) Php1.188B	1,188	12	1,176
	22,499	965	21,534
Term Loans:			
Unsecured Term Loans			
Metrobank Php3B	2,985	297	2,688
Union Bank of the Philippines Php1B	1,000	10	990
BPI Php3B	2,985	28	2,957
Bank of the Philippine Islands Php2B	1,000	10	990
Bank of the Philippine Islands Php2B	471	471	–
Bank of the Philippine Islands Php1B	235	235	–
Metrobank Php1B	188	188	–
BPI Corporate Bank	891	9	882
ALFM Peso Bond Fund Inc. & BPI Asset Management and Trust Group as trustee	594	6	588
Rizal Commercial Banking Corporation Php2B	2,000	–	2,000
Land Bank of the Philippines Php3B	2,970	30	2,940
Land Bank of the Philippines Php2B	1,980	20	1,960
Land Bank of the Philippines Php1B	990	10	980
Manufacturers Life Insurance Co. (Phils.), Inc. Php200M	200	–	200
Philippine American Life and General Insurance Php1B	1,000	–	1,000
Land Bank of the Philippines Php3B	2,970	30	2,940
	22,459	1,344	21,115
Total Long-Term Debt	104,090	15,166	88,924
Obligations under Finance Lease	11	5	6
	Php104,090	Php15,166	Php88,924

**Schedule H. Capital Stock
December 31, 2013**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights (in millions)	Number of Shares Held by Related Parties	Directors and Key Officers ⁽¹⁾	Others
Preferred Stock	538	186	-	186	-	-
Non-Voting Preferred Stock (Php10 par value)	388	36	-	36	-	-
Cumulative Convertible Series HH to II	88	-	-	-	-	-
Cumulative Nonconvertible Series IV	300	36	-	36	-	-
Voting Preferred Stock(Php1 par value)	150	150	-	150	-	-
Common Stock (Php5 par value)	234	216	-	99⁽²⁾	-	117

⁽¹⁾ Consists of 489,173 common shares directly and indirectly owned by directors and key officers as at February 28, 2014.

⁽²⁾ Represents 25.57% beneficial ownership of First Pacific Group and its Philippine affiliates, and 20% beneficial ownership of NTT Group in PLDT's outstanding shares.

**Schedule I. Schedule of all the Effective Standards and Interpretations
December 31, 2013**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (Effective as of December 31, 2013)		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics				
PFRSs Practice Statement Management Commentary				
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	X		X
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	X		X
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	X		X
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	X		X
	Amendments to PFRS 1: Government Loans	X		X
PFRS 2	Share-based Payment	X		X
	Amendments to PFRS 2: Vesting Conditions and Cancellations	X		X
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	X		X
PFRS 3 (Revised)	Business Combinations	X		
PFRS 4	Insurance Contracts	X		X
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		X
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	X		
PFRS 6	Exploration for and Evaluation of Mineral Resources	X		X
PFRS 7	Financial Instruments: Disclosures	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	X		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	X		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	X		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	X		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	X		
PFRS 8	Operating Segments	X		
PFRS 9	Financial Instruments*		X	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		X	
PFRS 10	Consolidated Financial Statements	X		
	Amendments to PFRS 10: Consolidated Financial Statements – Investment Entities*		X	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (Effective as of December 31, 2013)		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	X		
PFRS 12	Disclosure of Interests in Other Entities	X		
	Amendments to PFRS 12: Disclosure of Interest in Other Entities – Investment Entities*		X	
PFRS 13	Fair Value Measurement	X		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	X		
	Amendment to PAS 1: Capital Disclosures	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	X		X
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	X		
PAS 2	Inventories	X		
PAS 7	Statement of Cash Flows	X		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X		
PAS 10	Events after the Reporting Period	X		
PAS 11	Construction Contracts	X		X
PAS 12	Income Taxes	X		
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets	X		
PAS 16	Property, Plant and Equipment	X		
PAS 17	Leases	X		
PAS 18	Revenue	X		
PAS 19 (Revised)	Employee Benefits	X		
	Amendment to PAS 19 – Defined Benefit Plans: Employee Contribution*		X	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	X		X
PAS 21	The Effects of Changes in Foreign Exchange Rates	X		
	Amendment: Net Investment in a Foreign Operation	X		X
PAS 23 (Revised)	Borrowing Costs	X		
PAS 24 (Revised)	Related Party Disclosures	X		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	X		X
PAS 27 (Revised)	Separate Financial Statements	X		
	Amendments to PAS 27: Separate Financial Statements – Investment Entities*		X	
PAS 28 (Revised)	Investments in Associates and Joint Ventures	X		
PAS 29	Financial Reporting in Hyperinflationary Economies	X		X
PAS 31 (Revised)	Interests in Associates and Joint Ventures	X		
PAS 32	Financial Instruments: Disclosure and Presentation	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	X		X
	Amendment to PAS 32: Classification of Rights Issues	X		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*		X	
PAS 33	Earnings per Share	X		
PAS 34	Interim Financial Reporting	X		X
PAS 36	Impairment of Assets	X		
	Amendments to PAS 36: Recoverable Amount of Disclosures for Non-Financial Assets*		X	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
PAS 39	Financial Instruments: Recognition and Measurement	X		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	X		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	X		
	Amendments to PAS 39: The Fair Value Option	X		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (Effective as of December 31, 2013)		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	X		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	X		
	Amendment to PAS 39: Eligible Hedged Items	X		
	Amendments to PAS 39 – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*		X	
PAS 40	Investment Property	X		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*		X	
PAS 41	Agriculture	X		X
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	X		
IFRIC 2	Members' Share in Cooperative Entities and Similar Instruments	X		X
IFRIC 4	Determining Whether an Arrangement Contains a Lease	X		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	X		X
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	X		X
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	X		X
IFRIC 8	Scope of PFRS 2	X		
IFRIC 9	Reassessment of Embedded Derivatives	X		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	X		
IFRIC 10	Interim Financial Reporting and Impairment	X		X
IFRIC 11	PFRS 2 – Group and Treasury Share Transactions	X		
IFRIC 12	Service Concession Arrangements	X		X
IFRIC 13	Customer Loyalty Programmes	X		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	X		X
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement	X		X
IFRIC 15	Arrangements for the Construction of Real Estate*		X	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	X		X
IFRIC 17	Distributions of Non-cash Assets to Owners	X		X
IFRIC 18	Transfers of Assets from Customers	X		X
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	X		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	X		X
IFRIC 21	Levies*		X	
SIC-7	Introduction of the Euro	X		X
SIC-10	Government Assistance - No Specific Relation to Operating Activities	X		X
SIC-12	Consolidation - Special Purpose Entities	X		X
	Amendment to SIC-12: Scope of SIC-12	X		X
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	X		X
SIC-15	Operating Leases - Incentives	X		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	X		X
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X		
SIC-29	Service Concession Arrangements: Disclosures	X		X
SIC-31	Revenue - Barter Transactions Involving Advertising Services	X		X
SIC-32	Intangible Assets - Web Site Costs	X		

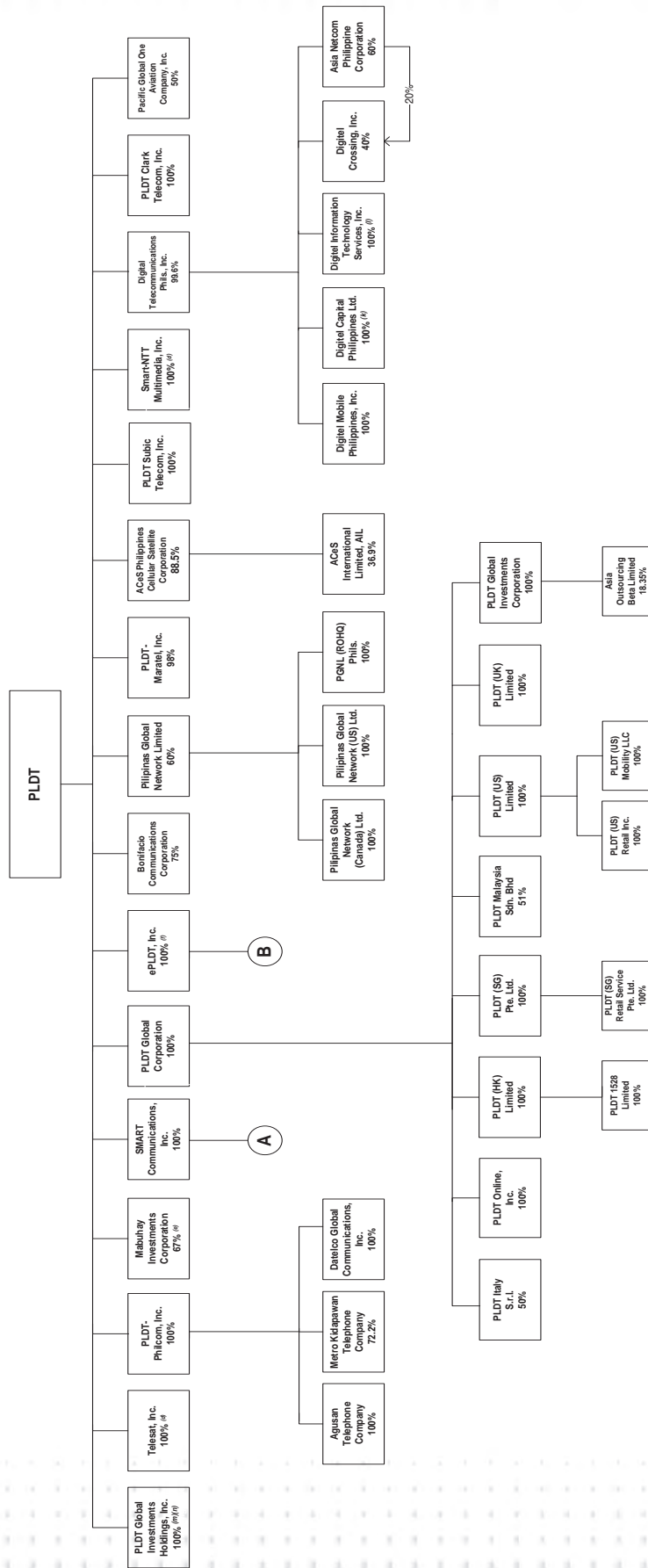
* Standards or amendments which will become effective subsequent to December 31, 2013.

**Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2013**

	Amount
	(in millions)
Parent Company's unappropriated retained earnings at beginning of the year	Php28,329
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(1,096)
Fair value adjustments (mark-to-market gains)	(1,132)
Fair value adjustments of investment property resulting to gain	<u>(535)</u>
Unappropriated retained earnings as adjusted at beginning of the year	25,566
Parent Company's net income attributable to equity holders of PLDT for the year	38,784
Less: Unrealized income – net of tax during the year	
Fair value adjustments of investment property resulting to gain	(285)
Fair value adjustments (mark-to-market gains)	<u>(370)</u>
Realized income during the year	
Realized foreign exchange gains	432
Cash dividends declared during the year	
Common stocks	(37,809)
Preferred stocks	<u>(59)</u>
Parent Company's unappropriated Retained Earnings Available for Dividend at end of the year	<u>26,259</u>

As at December 31, 2013, the consolidated unappropriated retained earnings amounted to Php22,968 million while the Parent Company's unappropriated retained earnings amounted to Php29,245 million. The difference of Php6,277 million pertains to the accumulated losses of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.

Schedule K. Map of the Relationships of the Companies within the Group
December 31, 2013



**Schedule L. Financial Soundness Indicators
December 31, 2013 and 2012**

	2013	2012
Current Ratio ⁽¹⁾	0.52:1.0	0.69:1.0
Net Debt to Equity Ratio ⁽²⁾	0.52:1.0	0.54:1.0
Net Debt to EBITDA Ratio ⁽³⁾	0.92:1.0	1.04:1.0
Total Debt to EBITDA Ratio ⁽⁴⁾	1.34:1.0	1.54:1.0
Asset to Equity Ratio ⁽⁵⁾	2.91:1.0	2.79:1.0
Interest Coverage Ratio ⁽⁶⁾	7.03:1.0	7.13:1.0
Profit Margin ⁽⁷⁾	21%	22%
Return on Assets ⁽⁸⁾	9%	9%
Return on Equity ⁽⁹⁾	25%	24%
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 equivalents 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 equivalents 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 associated 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.



Contact Information

Customer Care Services

(for service-related concerns)

PLDT CUSTOMER CARE
Call Center: 171
Non-PLDT subscribers who wish to contact PLDT: (632) 8888-171
Email address: customercare@pldt.com

Internet users can access information about PLDT and its products and services at: www.pldthome.com

Information

(for general inquiries)

Ramon Cojuangco Building (RCB)
Telephone: 893-0015

Makati General Office (MGO)
Telephone: 816-8659

Shareholder Services

(for inquiries on dividends, stock certificates, and related matters)

PLDT Shareholder Services

Telephone: (632) 843-1285 or 1-800-10-8300411 (Toll Free)
Fax: (632) 813-2292
Email Address: pldtshareholderservices@pldt.com.ph

Registrars and Transfer Agents

COMMON STOCK¹ AND VOTING PREFERRED STOCK

Philippine Registrar and Transfer Agent

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
HSBC Stock Transfer Unit
7/F HSBC Centre, 3058 Fifth Avenue
West Bonifacio Global City
Taguig City 1634, Philippines
Telephone: (632) 581-7598
(632) 581-7519
(632) 581-7594
Fax: (632) 755-5548
Email address: stkmlnl@hsbc.com.ph

NON-VOTING SERIAL PREFERRED STOCK

10% CUMULATIVE CONVERTIBLE PREFERRED STOCK Series HH and II²

SERIES IV CUMULATIVE NON-CONVERTIBLE REDEEMABLE PREFERRED STOCK

RIZAL COMMERCIAL BANKING CORPORATION
G/F West Wing, 221 GPL (Grepalife) Building,
Sen. Gil Puyat Avenue, Makati City, Philippines
Telephone: (632) 892-0426
(632) 892-4156
(632) 553-6933
(632) 894-9017
(632) 894-9868
Fax: (632) 892-3139
Email address: wbriones@rcbc.com
joscruz@rcbc.com
jpmodina@rcbc.com
ldeguzman@rcbc.com

¹ The shares of Common Capital Stock of PLDT are listed on the Philippine Stock Exchange (ticker: TEL).

² The Series HH and II 10% Cumulative Convertible Preferred Stock of PLDT are listed on the Philippine Stock Exchange. On January 19, 2012, all of the outstanding shares of 10% Cumulative Convertible Preferred Stock Series A to Series FF were redeemed and retired. On August 30, 2012, all the outstanding shares of 10% Cumulative Convertible Preferred Stock Series GG were redeemed and retired. On May 16, 2013, all the outstanding shares of 10% Cumulative Convertible Preferred Stock Series HH (Issued in year 2007) were also redeemed and retired.

³ PLDT has established an American Depositary Receipt facility under which American Depositary Shares (ticker: PHI) representing shares of Common Capital Stock are listed and traded on the New York Stock Exchange. The American Depositary Shares are evidenced by American Depositary Receipts issued by the Depositary.

Depositary of American Depositary Shares

AMERICAN DEPOSITARY RECEIPT FACILITY³

JPMorgan Chase Bank, N.A.
P.O. Box 64504
St. Paul, MN 55164-0854
U.S. Domestic Toll Free: (1-800) 990-1135
International Telephone No.: (1-651) 453-2128
Email address: jpmorgan.adr@wellsfargo.com
Website: www.adr.com

Investor Relations

(for financial and operating information on PLDT)

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12/F, Ramon Cojuangco Building
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Telephone: (632) 816-8024
Fax: (632) 810-7138
Email address: pldt_ir_center@pldt.com.ph

Corporate Governance

CORPORATE GOVERNANCE OFFICE
Email address: corpgov@pldt.com.ph

PLDT's Corporate Governance Manual, Code of Ethics and NYSE Section 303A.11 Disclosure, which summarizes the difference between PLDT's corporate governance practices and those required of U.S. companies listed on the NYSE, may be downloaded from:

Corporate Governance Manual
http://pldt.com/docs/default-source/policies/22336f71c88c495793d15575c2addffcpldtcorpgov_manual.pdf?sfvrsn=2

Code of Ethics
<http://pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4>

NYSE 303A.11 Disclosure
<http://www.pldt.com/docs/default-source/compliance/corporate-governance-materials/nyse-section-303a-11-disclosure.pdf?sfvrsn=0>

http://pldt.com/docs/default-source/compliance/nyse-pldt_303a-11_2013.pdf?sfvrsn=2

Corporate Business Group

(for corporate accounts concerns)

Telephone: 88-ALPHA (25742)
Fax: (632) 860-6112
Email address: info@pldtalpha.com
Website: www.pldtalpha.com

SME Business Group

(for small and medium enterprise concerns)

Telephone: 101888
Email address: smenationinquiry@pldt.com.ph
Website: www.pldtsme-nation.com.ph

Supply Chain, Asset Protection and Management

(for product offers, property-related matters, and asset protection/security concerns)

Telephone: (632) 816-8533
Fax: (632) 860-6586 or (632) 811-4677
Email address: SCAPMG@pldt.com.ph

Supplier Relationship Management

(for inquiries on vendor accreditation)

Telephone: (632) 844-2361 or (632) 891-6304 or (632) 556-9953
Fax: (632) 860-6551
Email address: vmo@pldt.com.ph or vendorrelationmgnt@pldt.com.ph

Recruitment

Hotline: (632) 8-PLDTHR or (632) 8-753847
Email address: pldthr@pldt.com.ph



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