

PHILIPPINE LONG DISTANCE TELEPHONE CO

Form 20-F

April 02, 2014

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the fiscal year ended December 31, 2013

OR

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

OR

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

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

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

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

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

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

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

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

None

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

8.350% Notes due March 2017

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

As at December 31, 2013:

216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

36,000,570 shares of Non-voting Preferred Stock, Par Value Ten Philippine Pesos Per Share

150,000,000 shares of Voting Preferred Stock, Par Value One Philippine Peso Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☒ No ☐

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

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

U.S. GAAP ☐

International Financial Reporting Standards as issued by the
International Accounting Standards Board ☒

Other ☐

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

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

Table of Contents

TABLE OF CONTENTS

<u>CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT</u>	3
<u>FORWARD-LOOKING STATEMENTS</u>	6
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	6
<u>PART I</u>	
Item 1. <u>Identity of Directors, Senior Management and Advisors</u>	6
Item 2. <u>Offer Statistics and Expected Timetable</u>	6
Item 3. <u>Key Information</u>	6
<u>Performance Indicators</u>	6
<u>Selected Financial Data</u>	8
<u>Capital Stock</u>	8
<u>Dividends Declared</u>	9
<u>Dividends Paid</u>	9
<u>Exchange Rates</u>	10
<u>Capitalization and Indebtedness</u>	10
<u>Reasons for the Offer and Use of Proceeds</u>	10
<u>Risk Factors</u>	10
Item 4. <u>Information on the Company</u>	21
<u>Overview</u>	21
<u>Historical Background and Development</u>	22
<u>Recent Developments</u>	22
<u>Business Overview</u>	23
<u>Capital Expenditures and Divestitures</u>	24
<u>Organization</u>	24
<u>Development Activities (2011-2013)</u>	25
<u>Strengths</u>	28
<u>Strategy</u>	29
<u>Business</u>	30
<u>Infrastructure</u>	38
<u>Interconnection Agreements</u>	41
<u>Licenses and Regulations</u>	41
<u>Material Effects of Regulation on our Business</u>	44
<u>Competition</u>	45
<u>Environmental Matters</u>	47
<u>Intellectual Property Rights</u>	47
<u>Properties</u>	47
Item 4A. <u>Unresolved Staff Comments</u>	48
Item 5. <u>Operating and Financial Review and Prospects</u>	48
<u>Overview</u>	48
<u>Management's Financial Review</u>	49
<u>Critical Accounting Policies</u>	50
<u>New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2013</u>	55
<u>Results of Operations</u>	56
<u>Plans</u>	88
<u>Liquidity and Capital Resources</u>	89
<u>Impact of Inflation and Changing Prices</u>	94
Item 6. <u>Directors, Senior Management and Employees</u>	95
<u>Directors, Key Officers and Advisors</u>	95
<u>Terms of Office</u>	101
<u>Family Relationships</u>	101
<u>Compensation of Key Management Personnel</u>	101
<u>Long-term Incentive Plan</u>	102

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

	<u>Share Ownership</u>	103
	<u>Board Practices</u>	103
	<u>Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees</u>	103
	<u>Directors and Officers Involvement in Certain Legal Proceedings</u>	106
	<u>Employees and Labor Relations</u>	107
	<u>Pension and Retirement Benefits</u>	108
Item 7.	<u>Major Shareholders and Related Party Transactions</u>	109
	<u>Related Party Transactions</u>	110
Item 8.	<u>Financial Information</u>	110
	<u>Consolidated Financial Statements and Other Financial Information</u>	110
	<u>Legal Proceedings</u>	110
	<u>Dividend Distribution Policy</u>	112
Item 9.	<u>The Offer and Listing</u>	112
	<u>Common Capital Stock and American Depositary Shares</u>	112

Table of Contents

Item 10.	<u>Additional Information</u>	113
	<u>Articles of Incorporation and By-Laws</u>	113
	<u>Material Contracts</u>	113
	<u>Exchange Controls and Other Limitations Affecting Securities Holders</u>	114
	<u>Taxation</u>	114
	<u>Documents on Display</u>	117
Item 11.	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	117
	<u>Liquidity Risk</u>	117
	<u>Foreign Currency Exchange Risk</u>	120
	<u>Interest Rate Risk</u>	121
	<u>Credit Risk</u>	123
	<u>Impairment Assessments</u>	126
	<u>Capital Management Risk</u>	126
Item 12.	<u>Description of Securities Other than Equity Securities</u>	127
<u>PART II</u>		
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	127
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	127
Item 15.	<u>Controls and Procedures</u>	128
Item 16A.	<u>Audit Committee Financial Expert</u>	128
Item 16B.	<u>Code of Business Conduct and Ethics</u>	128
Item 16C.	<u>Principal Accountant Fees and Services</u>	135
Item 16D.	<u>Exemption from the Listing Standards for Audit Committees</u>	136
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchaser</u>	136
Item 16F.	<u>Change in Registrant's Certifying Accountant</u>	136
Item 16G.	<u>Corporate Governance</u>	136
Item 16H.	<u>Mine Safety Disclosure</u>	136
<u>PART III</u>		
Item 17.	<u>Financial Statements</u>	137
Item 18.	<u>Financial Statements</u>	137
Item 19.	<u>Exhibits</u>	271
<u>EXHIBIT INDEX</u>		273
CERTIFICATION		326

Table of Contents

CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

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

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

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

In this report, unless otherwise specified or the context otherwise requires, all references to *pesos*, *Philippine pesos* or *Php* are to the lawful currency of the Philippines, all references to *dollars*, *U.S. dollars* or *US\$* are to the lawful currency of the United States and all references to *Japanese yen*, *JP¥* or *¥* are to the lawful currency of Japan. Unless otherwise indicated, conversion of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php44.40 to US\$1.00 on December 31, 2013. On March 28, 2014, the volume weighted average exchange rate quoted was Php45.00 to US\$1.00.

In this annual report, each reference to:

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

ADRs means American Depositary Receipts;

ADSs means American Depositary Shares;

AGS means ABM Global Solutions, Inc., a 99.2%-owned subsidiary of ePLDT;

AGS Group means AGS and its subsidiaries;

ARPU means average revenue per user;

Bayan means Bayan Telecommunications, Inc.;

BCC means Bonifacio Communications Corporation, a 75.0%-owned subsidiary of PLDT;

Beacon means Beacon Electric Asset Holdings, Inc., 50.0%-owned by PCEV;

Beta means Asia Outsourcing Beta Limited;

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

BIR means Bureau of Internal Revenue;

BPO means business process outsourcing;

BSP means Bangko Sentral ng Pilipinas;

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

BTS means base transceiver station;

CBA means collective bargaining agreement;

CEO means chief executive officer;

CG means Corporate Governance;

CG Manual means PLDT Manual on Corporate Governance;

CGO means Corporate Governance Office;

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

Chikka Group means Chikka and its subsidiaries;

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

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

CMTS means cellular mobile telephone system;

Code of Ethics means PLDT's Code of Business Conduct and Ethics;

CPCN means Certificate of Public Convenience and Necessity;

Table of Contents

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

DFON means domestic fiber optic network;

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

Digitel Group means Digitel and its subsidiaries;

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

DSL means digital subscriber line;

ECC means Executive Compensation Committee;

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

EPS means earnings per share;

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

First Pacific means First Pacific Company Limited;

First Pacific Group means First Pacific and its Philippine affiliates;

FTTH means Fiber-to-the-Home;

GAAP means generally accepted accounting principles;

Globe means Globe Telecom, Inc.;

GNC means Governance and Nomination Committee;

GSM means global system for mobile communications;

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

HB means House Bill;

IAS means International Accounting Standards;

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

ICT means information and communications technology;

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

IGF means international gateway facility;

IP means internet protocol;

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

ISP means internet service providers;

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

JGSHI means JG Summit Holdings, Inc.;

LEC means local exchange carrier;

LTIP means long-term incentive plan;

MIC means Mabuhay Investments Corporation (formerly Mabuhay Satellite Corporation), a 67.0%-owned subsidiary of PLDT;

Maratel means PLDT-Maratel, Inc., a 98.0%-owned subsidiary of PLDT;

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

Meralco means Manila Electric Company;

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

MPRI means Metro Pacific Resources, Inc.;

MVNO means mobile virtual network operations;

NGN means Next Generation Network;

NTC means the National Telecommunications Commission of the Philippines;

NTT means Nippon Telegraph and Telephone Corporation;

Table of Contents

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

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

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

NYSE means New York Stock Exchange;

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

PCD means PCD Nominee Corporation;

PCEV means PLDT Communications and Energy Ventures, Inc., a 99.8%-owned subsidiary of Smart;

PDRs means Philippine Depositary Receipts;

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

PFRS means Philippine Financial Reporting Standards;

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

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

PGNL means Pilipinas Global Network Limited, a 60%-owned subsidiary of PLDT;

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

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

Philcom Group means Philcom and its subsidiaries;

Philippine SEC means the Philippine Securities and Exchange Commission;

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Philweb means Philweb Corporation;

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

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

PLP means PLDT Landline Plus;

PSE means the Philippine Stock Exchange, Inc.;

PTIC means Philippine Telecommunications Investment Corporation;

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

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

SHPL means Smarthub Pte. Ltd., a wholly-owned subsidiary of Smart;

SIM means Subscriber Identification Module;

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

SME means small and medium enterprises;

SMHC means Smart Money Holdings Corporation, a wholly-owned subsidiary of Smart;

SMS means Short Messaging Service;

SRC means the Securities Regulation Code of the Philippines;

SRF means Supervision and Regulation Fees;

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

TSC means the Technology Strategy Committee;

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

VAS means Value-Added Service;

VAT means Value-Added Tax;

VoIP means Voice over Internet Protocol;

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

Table of Contents

W-CDMA means Wideband-Code Division Multiple Access;

WiMAX means Worldwide Interoperability for Microwave Access; and

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

FORWARD-LOOKING STATEMENTS

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2013 and 2012 and January 1, 2012 and for the three years in the period ended December 31, 2013, included in Item 18. Financial Statements of this annual report on Form 20-F have been prepared in conformity with IFRS.

In accordance with rule amendments adopted by the U.S. SEC, which became effective on March 4, 2008, we do not provide reconciliation to U.S. GAAP.

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. See Item 4. Information on the Company Development Activities (2011-2013) Sale of BPO Segment, Note 2 Summary of Significant Accounting Policies Discontinued Operations and Note 3 Management's Use of Accounting Judgments, Estimates and Assumptions Assets Held-for-Sale and Discontinued Operations to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion of the classification of the BPO segment as an asset held-for-sale.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information
Performance Indicators

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

Adjusted EBITDA

Adjusted EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, provision for (benefit from) income tax and other income (expenses). Adjusted EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Adjusted EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present Adjusted EBITDA because it is used by some investors as a

Table of Contents

way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported Adjusted EBITDA as a supplement to financial measures in accordance with IFRS. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should Adjusted EBITDA be considered as an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to any other measure determined in accordance with IFRS. Unlike net income, Adjusted EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using Adjusted EBITDA as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in Adjusted EBITDA. Our calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

A reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2013, 2012 and 2011 is presented in Item 5. *Operating and Financial Review and Prospects* Management's Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. *Financial Statements* .

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and nonrecurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2013, 2012 and 2011 is presented in Item 5.

Operating and Financial Review and Prospects Management's Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. *Financial Statements* .

Table of Contents

Selected Financial Data

The selected consolidated financial information below as at December 31, 2013, 2012, 2011, 2010 and 2009 and for the financial years ended December 31, 2013, 2012, 2011, 2010 and 2009, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, and the accompanying notes, included elsewhere in Item 18. Financial Statements of this annual report on Form 20-F. As disclosed under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 have been prepared and presented in conformity with IFRS.

	2013 ⁽¹⁾	2013	2012 ⁽²⁾	2011 ^(2, 3)	2010 ⁽²⁾	2009 ⁽²⁾
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)					
Statements of Operations Data:						
Revenues	US\$ 3,791	Php168,331	Php163,033	Php148,479	Php150,814	Php154,132
Service revenues	3,695	164,052	159,738	145,834	148,597	151,706
Non-service revenues	96	4,279	3,295	2,645	2,217	2,426
Expenses ⁽³⁾	2,827	125,515	122,529	106,424	95,287	96,016
Net income (loss) for the year	798	35,453	36,099	31,218	39,825	40,198
Continuing operations	752	33,384	35,556	30,351	40,314	40,784
Discontinued operations	47	2,069	543	867	(489)	(586)
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	3.69	163.67	167.07	161.05	210.53	210.94
Diluted	3.69	163.67	167.07	160.91	210.53	210.91
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	3.47	154.09	164.55	156.52	213.15	214.08
Diluted	3.47	154.09	164.55	156.39	213.15	214.05
Balance Sheets Data						
Cash and cash equivalents	719	31,905	37,161	46,057	36,678	38,319
Total assets	9,001	399,638	405,815	401,792	278,083	278,377
Total long-term debt net of current portion	2,003	88,924	102,811	91,273	75,879	86,066
Total debt ⁽⁴⁾	2,344	104,090	115,792	117,275	89,646	98,729
Total liabilities	5,908	262,312	260,081	247,546	180,351	181,006
Total equity attributable to equity holders of PLDT	3,089	137,147	145,550	153,860	97,416	96,821
Weighted average number of common shares for the year (in thousands)	4,866	216,055	216,055	191,369	186,790	186,916
Other Data:						
Depreciation and amortization	686	30,304	32,354	27,539	25,881	25,159
Ratio of earnings to fixed charges ⁽⁵⁾	5.7x	5.7x	5.4x	5.9x	7.0x	7.4x
Net cash provided by operating activities	1,661	73,763	80,370	79,209	77,260	74,386
Net cash used in investing activities	474	21,045	39,058	29,712	23,283	49,132
Net cash used in financing activities	1,347	59,813	48,628	40,204	55,322	20,293
Dividends declared to common shareholders	852	37,809	36,946	41,460	40,909	38,758
Dividends declared per common share	4.03	179.00	171.00	222.00	219.00	207.00

⁽¹⁾ We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2013, has been converted into U.S. dollars at the exchange rate of Php44.40 to US\$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2013. This conversion should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.

⁽²⁾ The 2009 to 2012 results have been adjusted to reflect the adjustments on the application of the Revised IAS 19. See Note 2 Summary of Significant Accounting Policies Changes in Accounting Policies and Disclosures to the accompanying audited consolidated financial

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

statements in Item 18. *Financial Statements* for further discussion.

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

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

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

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

Capital Stock

The following table summarizes PLDT's capital stock issued and outstanding as at December 31, 2013 and 2012:

	2013	December 31, 2012
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
HH to II	Php	Php
Series IV Cumulative Non-convertible Redeemable Preferred Stock	360	360
Voting Preferred Stock	150	150
	Php 510	Php 510
Common Stock	Php 1,080	Php 1,080

Table of Contents**Dividends Declared**

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

Earnings	Approved	Date Record	Payable	Per share (in pesos)	Amount Total Declared (in millions) Php
2011	August 2, 2011	August 31, 2011	September 27, 2011	78	14,567
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	Php 38,673

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.

Dividends Paid

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

	In Philippine Peso	In U.S. Dollars
2009	207.00	4.30
Regular Dividend April 21, 2009	70.00	1.45
Regular Dividend September 22, 2009	77.00	1.62

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Special Dividend	April 21, 2009	60.00	1.24
2010		219.00	4.95
Regular Dividend	April 20, 2010	76.00	1.71
Regular Dividend	September 21, 2010	78.00	1.78
Special Dividend	April 20, 2010	65.00	1.46
2011		222.00	5.10
Regular Dividend	April 19, 2011	78.00	1.80
Regular Dividend	September 27, 2011	78.00	1.78
Special Dividend	April 19, 2011	66.00	1.52
2012		171.00	4.04
Regular Dividend	April 20, 2012	63.00	1.48
Regular Dividend	September 28, 2012	60.00	1.44
Special Dividend	April 20, 2012	48.00	1.12
2013		175.00	4.18
Regular Dividend	April 18, 2013	60.00	1.39
Regular Dividend	September 27, 2013	63.00	1.53
Special Dividend	April 18, 2013	52.00	1.26

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

Table of Contents**Exchange Rates**

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

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

	Period End	Year Ended December 31, Average⁽¹⁾	High⁽²⁾	Low⁽³⁾
2009	Php 46.43	Php 47.82	Php 45.95	Php 49.06
2010	43.81	45.10	42.52	46.98
2011	43.92	43.28	41.96	44.59
2012	41.08	42.14	40.86	44.25
2013	44.40	42.66	40.57	44.66
2014 (through March 28, 2014)	45.00	45.00	44.34	45.41

Source: Philippine Dealing System Reference Rate

⁽¹⁾ Calculated by using the average of the exchange rates on the last day of each month during the period.

⁽²⁾ Highest exchange rate for the period.

⁽³⁾ Lowest exchange rate for the period.

	Period End	Month Average⁽¹⁾	High⁽²⁾	Low⁽³⁾
2013				
September	Php43.54	Php43.78	Php43.07	Php44.56
October	43.25	43.17	43.07	43.41
November	43.76	43.58	43.23	43.88
December	44.40	44.14	43.69	44.49
2014				
January	45.34	44.97	44.34	45.40
February	44.66	44.86	44.52	45.41
March (through March 28, 2014)	45.00	44.80	44.44	45.24

Source: Philippine Dealing System Reference Rate

⁽¹⁾ Calculated by using the average of the exchange rates during the month.

⁽²⁾ Highest exchange rate for the month.

⁽³⁾ Lowest exchange rate for the month.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2013 of Php44.40 to US\$1.00. You should not assume that such Philippine peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 28, 2014, the exchange rate quoted through the Philippine Dealing System was Php45.00 to US\$1.00. Unless otherwise specified, the weighted average exchange rate of the Philippine peso to the U.S. dollar for a given year used in the following discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

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

Table of Contents

Risks Relating to Us

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

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

Competition in the cellular telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference. Recently, operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal cellular competitor, Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice and SMS offers. In the same way, Smart and DMPI are also continuously innovating their product and service offerings and conducting promotions, which may affect their cellular revenue growth. Specifically, in response to the unlimited voice and text offers by Globe, Smart introduced promotions allowing Smart and *Talk N Text* subscribers to avail of unlimited on-network voice calls or unlimited on-network text messages at a fixed rate. DMPI, on the other hand, strengthened its unlimited plans through improved handset bundle offerings. Due to competition from other well-established telecommunications operators, we cannot assure you that the additional marketing expenses incurred by us for these promotions, nor can we assure you that, in response to rate pressures from our competitors, the potential loss of customers, decrease in rates or the increase in capital expenditures required for our continued capacity expansion necessary to accommodate the continued increases expected in call and text volumes as a result of unlimited voice and text offers, will not, in each case, have a material adverse effect on our business, results of operations, financial condition or prospects.

The cellular telecommunications industry may not continue to grow.

The majority of our total revenues are currently derived from the provision of cellular services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. The cellular penetration rate in the country, however, has already reached an estimated 108% as at December 31, 2013, counting for multiple SIM card ownership, thus the industry may well be considered mature. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer tastes and preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services or otherwise causing the Philippine cellular telecommunications industry to stop growing or reducing the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

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

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

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

increases in competition from other domestic and international telecommunications providers;

advances in technology;

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

the growing popularity of alternative providers offering over-the-top services like social networking, instant messaging, internet telephony, also known as VoIP services; or

alternative providers of broadband capacity.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

Table of Contents

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

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

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

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

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

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

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

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

On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 directing the reduction of interconnection charges for SMS between two separate networks from Php0.35 to Php0.15 per SMS. The NTC has interpreted this circular to require a reduction in SMS charges charged to end users. Therefore, it initiated administrative cases against the mobile operators for the latter's failure to implement reduced SMS charges.

Table of Contents

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

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

On December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge to/from LEC and to/from CMTS to Php2.50 per minute, from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, making it in parity with each other. PLDT and Smart individually filed on February 1, 2012 and January 20, 2012, respectively, their separate Motions for Reconsideration, which the NTC denied. The parties appealed to the Court of Appeals, reiterating among others, that the NTC erred in ruling that all LECs are automatically entitled to a cross-subsidy; that the NTC decision violates PLDT and Smart's right to due process; and that the NTC decision violates the Constitutional proscription against non-impairment of contracts. PLDT and Smart's petitions remain pending with the Court of Appeals. In the meantime, the PAPTELCO has filed a motion for the execution of the NTC decision before the NTC, which remains pending.

A summary of the existing material regulations on our business is set forth in Item 4. Information on the Company's Material Effects of Regulation on our Business. Due to the regulatory power of the NTC, as described above, we cannot assure you that the NTC will not impose changes to the current regulatory framework in the future, which could lead to increased competition or negatively affect the rates we can charge for our services. Any of these events could have a material adverse effect on our business, results of operations and prospects.

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

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

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, 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 referred the computation of the CRA to the commissioners of the NTC. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

Table of Contents

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

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

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

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

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

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

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

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

As growth slows or reverses in our traditional fixed line and cellular businesses, and as part of our strategy to grow other business segments, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. Since 2010, we have made a number of significant acquisitions, investments in businesses within and ancillary to the telecommunications sector, including an investment in shares of Meralco through PCEV in 2010, the acquisition of the Digitel Group in 2011 and an investment in PDRs of MediaQuest, the ultimate parent company of Cignal TV, a direct-to-home pay-TV business, in 2012 and other smaller investments in various businesses. The success of our acquisitions and investments depends on a number of factors, such as:

our ability to identify suitable opportunities for investment or acquisition;

our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;

the extent to which we are able to exercise control over the acquired company;

the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and

our ability to successfully integrate the acquired company or business with our existing businesses.

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

Table of Contents

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

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

shortages of equipment, materials and labor;

work stoppages and labor disputes;

interruptions resulting from inclement weather and other natural disasters;

unforeseen engineering, environmental and geological problems; and

unanticipated cost increases.

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

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

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

physical damage;

power loss;

capacity limitation;

cable theft;

software defects; and

breaches of security by computer viruses, break-ins or otherwise.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

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

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart s projects, networks, platforms and

Table of Contents

services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php28,838 million, Php36,396 million and Php31,207 million for the years ended December 31, 2013, 2012 and 2011, respectively. We currently estimate that our consolidated capital expenditures in 2014 will be approximately Php32 billion, of which approximately Php17 billion is estimated to be spent by Smart, approximately Php12 billion is estimated to be spent by PLDT; approximately Php1 billion is estimated to be spent by DMPI; and the balance represents the estimated 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, mainly in provincial areas to achieve greater business benefits from a closely synergized environment.

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

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

As at December 31, 2013 and 2012, our consolidated long-term debt amounted to Php104,090 million, or US\$2,344 million, and Php115,792 million, or US\$2,819 million, respectively, and accounted for a 0.8 times debt to equity ratio, calculated as long-term debt on a consolidated basis, divided by total equity attributable to equity holders of PLDT. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of PFRS at relevant measurement dates, principally at the end of each quarter period. For a description of some of these covenants, see *Note 20 Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. Financial Statements .

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

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Of our total consolidated debts, 57% and 45% were denominated in foreign currencies as at December 31, 2013 and 2012, respectively, principally in U.S. dollars, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso.

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

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

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

unhedged. As at December 31, 2012, approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 38% of our total consolidated indebtedness was unhedged.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

Approximately, 21% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to the U.S. dollar for the year ended December 31, 2013 as compared with approximately 21% and 30% for the years ended December 31, 2012 and 2011, respectively. Approximately 11% of our consolidated expense were denominated in U.S. dollars and/or linked to the U.S. dollar 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.

Table of Contents

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

political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;

global economic and financial trends;

the volatility of regional currencies, particularly the Japanese yen;

any interest rate increases by the Federal Reserve Bank of the United States; and

changes in the value of the U.S. dollar relative to Philippine peso, resulting from events such as higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

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

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

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

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

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

The First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2013, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition. This is the largest block of PLDT's common stock that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at December 31, 2013, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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.

First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. See Item 7. Major Shareholders and Related Party Transactions for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

capital expenditures in excess of US\$50 million;

any investments, if the aggregate amount of all investments for the previous 12 months is greater than US\$25 million in the case of all investments to any existing investees and US\$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis;

any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US\$10 million in the case of an existing investee and US\$50 million in the case of a new investee;

Table of Contents

issuance of common stock or stock that is convertible into common stock;

new business activities other than those we currently engage in; and

merger or consolidation.

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:

NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the board of directors of each of PLDT and Smart;

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;

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

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 of Smart's common capital stock by any member of the PLDT Group to any person who is not a member of the PLDT Group.

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

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

elections of PLDT's directors; and

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

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

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

reputation and results of operations could be harmed.

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

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

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

As at December 31, 2013, PLDT has three employee unions, representing in the aggregate 5,494, or 31%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our operating expenses and adversely affect our profitability. Each of our different employee groups may require separate collective bargaining agreements. If any group of our employees and PLDT are unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

Table of Contents

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

PLDT is currently involved in several legal proceedings in the Philippines. Since 1990, PLDT and Eastern Telecommunications Philippines, Inc. (ETPI) have been engaged in legal proceedings involving a number of issues in connection with their business relationship. 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. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

PLDT is also involved in legal proceedings with various parties regarding Philippine SEC Memorandum Circular No. 8, which was issued in response to the Gamboa Case Decision. On June 10, 2013, Jose M. Roy III as petitioner filed a petition with the Supreme Court 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. PLDT, through counsels, filed its Comment on the Petition on September 5, 2013, challenging the petition. The resolution of the Jose M. Roy III Petition remains pending with the Supreme Court.

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

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

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

Risks Relating to the Philippines

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

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

The Philippines has from time to time experienced severe political and social instability, including acts of political violence. On December 12, 2011, the Philippine House of Representatives initiated impeachment proceedings against Renato Corona, then Chief Justice of the Supreme Court of the Philippines. The impeachment complaint accused Corona of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials. The trial of Chief Justice Corona began in January 2012. On May 29, 2012, the impeachment court found Corona guilty of failing to disclose to the public his statement of assets, liabilities and net worth and removed Corona from his position as Chief Justice of the Supreme Court of the Philippines.

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

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

suspend temporarily or restrict sales of foreign exchange;

require licensing of foreign exchange transactions; or

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

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

Table of Contents

The occurrence of natural catastrophes could materially disrupt our operations.

The Philippines has experienced a number of major natural catastrophes over the years, including floods, volcanic eruptions, earthquakes and typhoons, a recent example of which was Typhoon Yolanda (international name Haiyan) in November 2013, the world's strongest typhoon to date, which caused massive destruction in the Visayan provinces, that may materially disrupt and adversely affect our business operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of the ongoing global climate change. We cannot assure you that we are fully capable of addressing the impact of these occurrences or that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes.

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

Certain islands in the Philippines have been subject to a number of terrorist attacks and violent crimes in recent years. An increase in the number of terrorist attacks or violent crimes, or the occurrence of a large-scale terrorist attack, in the Philippines could negatively affect the Philippine economy and, therefore, our business, financial position and financial performance. The Philippine army has been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for kidnapping and terrorist activities in the Philippines. There has been a series of bombings in the Philippines, mainly in southern cities. Although no one has claimed responsibility for these attacks, Philippine military officials have stated that the attacks appeared to be the work of the Abu Sayyaf organization. There have also been a number of violent crimes in the Philippines, including an isolated incident in August 2010 involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists and prompted the Hong Kong government to declare a travel warning on the Philippines. On January 25, 2011, five people were killed and 13 were injured when an improvised mortar bomb triggered by a mobile phone exploded on a bus in Makati City. In August 2013, a series of bombings occurred in the cities of Cagayan de Oro and Cotabato City, and in other areas in Maguindanao and North Cotabato provinces, all located in Mindanao. Early in September 2013, an alleged splinter group of the Moro National Liberation Front took hostages in Zamboanga and initiated an armed aggression versus the Armed Forces of the Philippines. While the Zamboanga standoff situation is improving, the conflict is not yet fully resolved.

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

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

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

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

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect our business, financial position and financial performance.

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

Table of Contents

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

Historically, the Philippines' sovereign debt has been rated non-investment grade by international credit rating agencies. Although the Philippines long-term foreign currency-denominated debt was recently upgraded by Fitch and Standard & Poor's to the investment-grade rating of BBB-, and by Moody's to the investment-grade rating of Baa3, the continued relatively low sovereign ratings of the Government will directly and adversely affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies, including PLDT. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including PLDT, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

Risks Relating to Our Securities

PLDT is required to comply with foreign ownership restriction under the Philippine Constitution. At present, PLDT believes it has complied with such restriction through the issuance of 150 million shares of its Voting Preferred Stock to BTFHI. There can be no assurance that further interpretations of such law will not require further actions to procure compliance with foreign ownership restriction under the Philippine Constitution.

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

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

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof: "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT believes it was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of December 31, 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. Thus, we believe that as of the date of this report, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution. See *Note 26 Provisions and Contingencies Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

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

Item 4. Information on the Company Overview

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

We are the leading fixed line service provider in the Philippines accounting for approximately 69% of the total reported fixed line subscribers nationwide as at December 31, 2013. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 66% of total reported cellular subscribers nationwide as at December 31, 2013. We have interests in the BPO sector, including the operation of our customer relationship management and knowledge processing solutions business. In December 2012, our Board of Directors authorized the sale of our BPO business and our BPO segment was classified as a discontinued operation. The sale was completed in April 2013 and US\$40 million was reinvested in the BPO business. See Item 4. Information on the Company Sale of BPO Segment for further discussion.

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

We had a market capitalization of approximately Php576,005 million, or US\$12,973 million, as at December 31, 2013, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues, including revenues from discontinued operations, of Php168,331 million, or US\$3,791 million, and net income attributable to equity holders of PLDT of Php35,420 million, or US\$798 million for the year ended December 31, 2013.

Table of Contents

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

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTT-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart. On March 14, 2006, NTT DOCOMO acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 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 PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised the First Pacific Group and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% of PLDT's outstanding common stock as at December 31, 2013. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

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

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. According to public filings, as at February 28, 2014, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO, together with NTT Communications) owned approximately 8%, 26% and 20% of PLDT's outstanding common shares, respectively. See Item 4. Information on the Company Development Activities (2011-2013) PLDT's Acquisition of a Controlling Interest in Digitel from JGSHI.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or BTF, created pursuant to PLDT's benefit plan, subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2013.

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

Recent Developments

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 operations of a data center. As at the date of this report, Rack IT is still at the pre-operating phase and construction of its data center facility, which is located in Sucat, Parañaque, is still ongoing.

PLDT issued Php15 billion Fixed Rate Retail Bonds

On January 23, 2014, the Philippine SEC approved the registration and approved the offering of our peso fixed-rate retail bonds with a base offer size of Php10 billion, with an option for oversubscription of up to Php5 billion.

Table of Contents

The bonds were offered to the public on January 24 to 30, 2014. PLDT exercised its oversubscription option and increased the total issue size from Php10 billion to Php15 billion. Of the total issue size, Php12.4 billion was allocated to the seven-year tranche due 2021, or the Fixed Rate Bonds due 2021, with a coupon rate of 5.2250% per annum, and the remaining Php2.6 billion to the ten-year tranche due 2024, or the Fixed Rate Bonds due 2024, with a coupon rate of 5.2813% per annum.

On February 6, 2014, the Fixed Rate Bonds Due 2021 and Fixed Rate Bonds Due 2024 were issued and listed for trading on the Philippine Dealing Exchange. These bonds may be sold and traded only in the Philippines.

Proceeds from the issuance of these bonds will be used to finance capital expenditure and/or refinance existing obligations, the proceeds of which were utilized for service improvements and expansion.

PLDT's inaugural bonds were rated by Credit Rating and Investors Service Philippines, Inc., or CRISP, as AAA with a stable outlook, the highest on the scale.

Automated Fare Collection System Project Awarded to Ayala-First Pacific Consortium, or AF Consortium

In 2013, Smart, along with other companies of conglomerates Metro Pacific Investments Corporation, or MPIC, and Ayala Corporation, or Ayala, bid for the Automated Fare Collection System, or AFCS, project of the Department of Transportation and Communication, or DOTC, and Light Rail Transit Authority. The project aims to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems by substantially speeding up payments, reducing queuing time and facilitating efficient passenger transfer to other rail lines. The AF Consortium led by MPIC and Ayala, composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, and Globe Telecom, Inc., for the Ayala Group, and MPIC, Meralco Financial Services Corporation, and Smart for the MPIC Group bid for the AFCS Project and on January 30, 2014, received a Notice of Award from the DOTC declaring it as the winning bidder. The AF Consortium will form a corporation with Smart taking 20% ownership.

Business Overview

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 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 Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

Wireless

We provide (1) cellular and (2) wireless broadband, satellite and other services through our wireless business, which contributed about 91% and 9% of our wireless service revenues, respectively, in 2013. In previous years, rapid growth in the cellular market resulted in a change in our revenue composition, with cellular service becoming our largest revenue source, surpassing our fixed line revenues. Cellular data services, which include all text messaging and text-related services ranging from ordinary SMS to VAS, contributed significantly to our revenue increase. Our total wireless revenues was 65% of our total revenues in 2013 and 66% and 61% for the years 2012 and 2011, respectively. Our cellular service revenues were 89% of our total wireless revenues, which include service and non-service revenues in each of 2013 and 2012, and 90% in 2011.

Our cellular service, which accounted for about 91% of our wireless service revenues for the year ended December 31, 2013, is provided through Smart and DMPI with 70,045,627 total subscribers as at December 31, 2013 representing a combined market share of approximately 64%. In 2013, the combined number of subscribers of Smart and *Sun Cellular* subscribers increased by 179,169, to 70,045,627. The growth was mainly due to a combination of organic subscriber growth and multiple SIM card ownership. Cellular penetration in the Philippines reached approximately 108% as at December 31, 2013, or approximately 36 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Approximately 97% and 90% of Smart and *Sun Cellular* subscribers, respectively, as at December 31, 2013 were prepaid service subscribers and subscriber gains in 2013 were predominantly attributable to their respective prepaid services. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market, allowing us to increase and broaden our subscriber base without

handset subsidies and reducing billing and administrative costs on a per-subscriber basis, as well as to control credit risk.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Text messaging continues to be popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Cellular data service revenues increased by Php843 million, or 2%, to Php52,258 million in 2013 from Php51,415 million in 2012.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz BTS in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. We have rolled out a 3G network based on a W-CDMA technology and are currently upgrading our wireless broadband facilities. With 20,770 cellular/mobile broadband base stations as at December 31, 2013, our cellular network covers approximately 99% of all towns and municipalities in the Philippines.

DMPI transformed its transmission backbone network from a linear architecture to a ring topology, which allows for greater redundancy to ensure service reliability and quality. Additionally, DMPI developed an advanced 3G network that is currently operational in various provinces nationwide. We believe DMPI has developed an

Table of Contents

advanced network infrastructure that is highly efficient and can be easily scaled to accommodate increased subscriber base for its 2G and 3G business and increased network traffic from unlimited plans offered to subscribers of *Sun Cellular*. Smart and DMPI have defined a synergy plan whereby certain cell sites will be co-located. When the plan is fully implemented, it is expected that this will generate savings in terms of capex optimization, cost efficiencies and reductions in cost duplications.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country, servicing retail, corporate and small medium enterprise, or SME, clients. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 2,069,419 fixed line subscribers as at December 31, 2013, an increase of 5,625 from the 2,063,794 fixed line subscribers as at December 31, 2012 mainly due to higher net additions in 2013 compared with 2012. Total revenues from our fixed line was 35% of our total revenues for the year ended December 31, 2013, and 34% in each of the years ended December 31, 2012 and 2011. National long distance revenues have been declining largely due to a drop in call volumes as a result of continued popularity of alternative means of communications such as texting, e-mailing and internet telephony. An increase in our data and other network service revenues in recent years have mitigated such decline to a certain extent. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new data-capable and IP-based networks.

Our 11,200-kilometer long DFON is complemented by an extensive digital microwave backbone network operated by Smart. This microwave networks complements the higher capacity fiber optic networks and are vital in delivering reliable services to areas not covered by fixed terrestrial transport network. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through two international gateway switching exchanges and various regional submarine cable systems in which we have economic interests.

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

Others

Other business consists primarily of PCEV, an investment holding company which has a 24.98%-interest in Meralco shares through its 50% equity interest in Beacon's outstanding common stock and preferred stock, and PGIH, which owns an 18.24% economic interest in Beta, an investment holding company of SPi Technologies and its subsidiaries, where we reinvested approximately US\$40 million of the proceeds from the sale of BPO in 2013.

Other business also includes PLDT's investments in multi-media content, including in Cignal TV, Satventures and Hastings, through its ePLDT's investments in PDRs issued by MediaQuest. See Item 4. Information on the Company Development Activities (2011-2013) Investment in PDRs of MediaQuest for further discussion.

Capital Expenditures and Divestitures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for information concerning our principal capital expenditures for the years ended December 31, 2011, 2012 and 2013 and those planned for 2014. See Item 4. Development Activities (2011-2013) Divestment of CURE for the discussion of our recent divestitures.

Organization

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

Place of	Percentage of Ownership	
	December 31,	
	2013	2012

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Name of Subsidiary	Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	100.0		100.0	
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services		100.0		100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		100.0		100.0
I-Contacts Corporation	Philippines	Call center services		100.0		100.0
Wolfpac Mobile, Inc.	Philippines	Mobile applications development and services		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
Smart e-Money, Inc., or SeMI, (formerly Smarthub, Inc.) ^(a)	Philippines	Software development and sale of maintenance and support services		100.0		100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		100.0		100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		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
PH Communications Holdings Corporation	Philippines	Investment company		100.0		100.0
Francom Holdings, Inc.:	Philippines	Investment company		100.0		100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services		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
Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL	China	Mobile applications development and services		100.0		100.0
Chikka Pte. Ltd., or CPL	Singapore	Managing patent and trademark portfolio		100.0		100.0
Smarthub Pte. Ltd., or SHPL:	Singapore	Investment company		100.0		100.0
Takatack 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

Table of Contents

3 rd Brand Pte. Ltd., or 3 rd Brand	Singapore	Solutions and systems integration services	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
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Investments Corporation, or MIC, (formerly Mabuhay Satellite Corporation) ^(e)	Philippines	Investment company	67.0	67.0
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	99.6	99.5
Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	100.0
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	100.0
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	100.0	100.0
Smart-NTT Multimedia, Inc. ^(d)	Philippines	Data and network services	100.0	100.0
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	100.0
ePLDT, Inc., or ePLDT ^(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
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
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
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	67.0	67.0
netGames, Inc., or netGames ^(j)	Philippines	Gaming support services	57.5	57.5
Digitel	Philippines	Telecommunications services	99.6	99.5
Digitel Capital Philippines Ltd., or DCPL ^(k)	British Virgin Islands	Telecommunications services	99.6	99.5
Digitel Information Technology Services, Inc. ^(l)	Philippines	Internet services	99.6	99.5
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	98.0	97.8
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	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
Others				
PLDT Global Investments Holdings, Inc., or PGIH, (formerly SPi Global Holdings, Inc.) ^{(m)(n)}	Philippines	Investment company	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

- (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 MSSI, 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 wholly-owned by PGIH. The sale was completed in April 2013. Consequently, as at December 31, 2013, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. 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.*

Development Activities (2011-2013)

Investment in PDRs of MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, for the issuance of PDRs by MediaQuest in relation to its indirect interest in Cignal TV, Inc., or 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 equity positions in three leading newspapers: The Philippine Star, the Philippine Daily Inquirer, and Business World. See *Note 25 Employee Benefits Unlisted Equity Investments Investment in MediaQuest* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further details.

Table of Contents

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

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. A new investor is expected to 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.

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

Sale of BPO Segment

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

PCEV's Transfer of Meralco Shares to Beacon

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

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 and Php20,801 million as at December 31, 2013 and 2012, respectively.

PCEV's Additional Investment in Beacon

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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.

Table of Contents

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. Because the Beacon preferred shares were sold to an entity not included in the PLDT Group, PCEV realized a portion of the deferred gain amounting to Php2,012 million. This amount 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 for the long-term, similar to its investment in common shares. As a result, the 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.

PLDT's Acquisition of Digitel

On October 26, 2011, we completed the acquisition of certain interests in Digitel, including (i) 3.28 billion common shares representing 51.6% of the issued common stock of Digitel, (ii) zero-coupon bonds convertible into approximately 18.6 billion common shares of Digitel, and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010. Upon completion of the acquisition, we began consolidating the results of operation of Digitel in our financial statements.

Digitel operates a fixed line business in certain parts of the country and is the 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand. The primary effect of the acquisition of Digitel on our operating segments was the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business.

As a consequence of completion of a mandatory tender offer and related share exchanges, open market acquisitions, and conversions of certain of our zero coupon bonds, we held 99.6% of the outstanding capital of Digitel as of 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.

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

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

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

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

Table of Contents

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	Php 12,060,000,000	12,060,000,000	Php 1	Php 12,060,006,000	574,286	Php 21,000
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	Php 12,800,000,000			Php 12,176,667,000		

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 because the number of shareholders still exceeds 100 shareholders under the rules of the Philippine SEC, PCEV is still required to make filings of updates with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at December 31, 2013.

PLDT's Acquisition of Subscription Assets of Digitel

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

ePLDT's Acquisition of Shares of AGS - Minority Stockholders

In 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%.

See Note 2 - Summary of Significant Accounting Policies and Note 13 - Business Combinations to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion regarding these and other acquisitions.

Strengths

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

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

Leading Market Shares. With over 75 million fixed lines, cellular and broadband subscribers as at December 31, 2013, we have leading market positions in each of the fixed line, cellular and broadband markets in the Philippines in terms of both subscribers and revenues.

Diversified Revenue Sources. We derive our revenues from our three business segments, namely, wireless, fixed line and other businesses, with wireless and fixed line contributing 65% and 35%, respectively, to our total revenues in 2013, and 66% and 34% from our wireless and fixed line, respectively, in 2012. Revenue sources of our wireless business include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Revenues from cellular voice and text services have been declining but are somewhat mitigated by the increase in revenues from wireless broadband and mobile internet browsing. Our fixed line business derives service revenues from local

Table of Contents

exchange, international long distance, national long distance and data and other network services. Revenues from local exchange, national and international long distance, have been declining over the past years due to pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution from corporate, SME and consumer data.

Superior Integrated Network. With the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We have completed a two-year network transformation program that further enhanced the capabilities of our fixed line and wireless networks, allowing us to better leverage this competitive strength to maintain market leadership while achieving higher levels of network efficiency in providing voice and data services. Part of our network transformation program included the continued upgrade of our fixed line network to an all IP-based NGN, the build out of our transmission network to 54,000 kilometers of fiber, the investment in increased international bandwidth capacity, and the expansion of our 3G and wireless broadband networks in order to enhance our data/broadband capabilities. Our network investments include the upgrade of our IT capabilities, including our Operating Support Systems, Business Support Systems and Intelligent Networks, all of which are essential in enabling us to offer more relevant services to our customers.

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

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

Strategy

The key elements of our business strategy are:

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

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

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

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

Table of Contents

Business

Wireless

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

Cellular Service

Overview

Our cellular business, which we provide through Smart and DMPI to over 70 million subscribers as at December 31, 2013, approximately 97% of whom are prepaid subscribers, focuses on providing wireless voice communications and wireless data communications (primarily through text messaging, but also through a variety of VAS and mobile broadband). As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE's *Red Mobile* subscriber base to Smart. See Item 4. Information on the Company Development Activities (2011-2013) Divestment of CURE and Note 2 Summary of Significant Accounting Policies Divestment of CURE to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion.

The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2013, 2012 and 2011:

	2013		December 31, 2012		2011 ⁽¹⁾
Systemwide cellular subscriber base		70,045,627		69,866,458	63,696,629
Prepaid		67,667,750		67,611,537	61,792,792
<i>Smart Prepaid</i>		24,608,687		25,061,453	28,011,521
<i>Talk N Text</i>		29,485,017		28,445,053	20,467,175
<i>Sun Cellular</i>		13,574,046		14,105,031	13,314,096
Postpaid		2,377,877		2,254,921	1,903,837
<i>Smart</i>		889,696		683,480	550,748
<i>Sun Cellular</i>		1,488,181		1,571,441	1,353,089
Growth rate of cellular subscribers					
Prepaid					
<i>Smart Prepaid</i>		(2%)		(11%)	7%
<i>Talk N Text</i>		4%		39%	8%
<i>Sun Cellular</i>		(4%)		6%	100%
Postpaid					
<i>Smart</i>		30%		18%	31%
<i>Sun Cellular</i>		(5%)		16%	100%
Cellular revenues (in millions)	Php	105,875	Php	103,604	Php 93,645
Voice		51,384		49,627	43,884
Data		52,258		51,415	47,235
Others		2,233		2,562	2,526
Percentage of cellular revenues to total wireless service revenues		91%		91%	92%
Percentage of cellular revenues to total service revenues		59%		60%	55%

⁽¹⁾ Includes DMPI's cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

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

Sun Cellular offers its *Call and Text Unlimited* products, which allow subscribers to enjoy 24 hours of *Sun-to-Sun* voice calls and all network texts for as low as Php25 per day. *Sun Cellular's Text Unlimited* products offer unlimited *Sun-to-Sun* SMS with free voice calls plus mobile internet for as low as Php10 per day. *Sun Cellular* also offers *Call and Text* combo which allows subscribers to send 50 *Sun-to-Sun* SMS and 50 SMS to other networks along with 10 minutes *Sun-to-Sun* voice calls and 10 minutes mobile internet for only Php10, valid for one day.

Sun Cellular also offers *Sun Trio Loads*, which comes with 200 SMS to *Sun*, *Smart* and *Talk N Text*, 10 minutes *Sun-to-Sun* calls, 3 minutes of calls to *Sun Cellular*, *Smart* and *Talk N Text* bundled with 30 minutes of mobile internet for only Php20, valid for one day. Moreover, *Sun Cellular* launched *Sun BlackBerry All-Day* unlimited services which comes with unlimited mobile internet, unlimited social networking, unlimited instant messaging, unlimited BlackBerry browsing and unlimited BlackBerry Messenger for only Php50 per day.

Table of Contents

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

Smart also offers the *Smart Unli Postpaid Plan 599* which offers unlimited calls to Smart subscribers and unlimited texts to Smart, *Talk N Text* and *Sun Cellular* subscribers.

Smart's *Unli Data Plans* offer unlimited internet browsing on postpaid basis, best suited for subscribers with high data usage. Bundled with the latest handsets, and with free texts and calls, subscribers may choose among the following packages: *Plan1500*, *Plan2000* and *Plan3000*.

Sun Cellular postpaid plans offer a variety of services to cater to the emerging needs of the subscribers at affordable prices. *Sun Cellular* offers *Sundroid Rush Plans* starting from Php450 per month that comes with a free Android handset and tablet where subscribers can enjoy unlimited *Sun Calls and Texts*, 250 free texts to other networks and 20 hours for mobile internet. *Sun Cellular* also offers IDD plans which allows subscribers to make international calls and send SMS to selected countries for as low as Php2 per minute of voice call or per SMS. The IDD Plans also come with a free Android handset along with free calls and SMS, depending on the plan.

Voice Services

Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remain a significant contributor to wireless revenues, generating a total of Php51,384 million, Php49,627 million and Php43,884 million, or 49%, 48% and 47% of cellular service revenues in 2013, 2012 and 2011, respectively. Local calls continue to dominate outbound traffic constituting 91% of all our cellular minutes. Domestic inbound and outbound calls totaled 51,504 million minutes in 2013, an increase of 1,907 million minutes, or 4%, as compared with 49,597 million minutes in 2012, due to increased traffic on bucket and unlimited calls. International inbound and outbound calls totaled 3,590 million minutes in 2013, an increase of 162 million minutes, or 5%, as compared with 3,428 million minutes in 2012. The ratio of inbound-to-outbound international long distance minutes was 8.6:1 for 2013.

Data Services

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

The Philippine cellular market is one of the most text messaging-intensive markets in the world, with more than a billion text messages sent per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications.

Cellular revenues from this service 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. In 2013, Smart's and DMPI's text messaging system handled 31,878 million outbound messages on standard SMS services and 471,298 million messages generated by bucket-priced text services.

Revenues from mobile internet includes web-based services such as mobile internet browsing and video streaming, net of allocated discounts and content provider costs.

Smart and DMPI offer the following VAS:

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

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

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for text-based informational and e-commerce services. There is a potential growth in mobile internet browsing as a result of the popularity of social networking and the affordability of smartphones. Our current approach is to continue maximizing our 3G network services while continuously upgrading our network to Long-Term Evolution, or LTE 4G, in anticipation of the growth in mobile internet browsing.

Chikka

Through Chikka, we provide an internet and GSM-based instant messaging facility for mobile users or subscribers. Services include instant text messaging from personal computer to mobile phones and vice versa, text newsletter, text-based promotions, multi-media messaging, subscription-based services, and other mobile VAS.

Table of Contents

Rates

Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and reloads it at least once during the month of initial activation or in the immediately succeeding month. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload.

Smart Prepaid and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of electronic loading facility, *Smart Load*, made reloading of air time credits more convenient and accessible for consumers. *Smart Load*'s over-the-air reloads have evolved to respond to market needs and now come in various denominations ranging from Php10 to Php1,000 with corresponding expiration periods. The introduction of *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or bucket packages as a means of driving subscriber activations and stimulating usage. These bucket packages, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be popular with subscribers. Smart also offers unlimited voice and text packages under its various brands in order to be competitive and maintain industry leadership. Both bucket packages, and unlimited voice and text packages account for 32% of our cellular service revenues in 2013.

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

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

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

Sun Cellular offers postpaid services that enable subscribers to place local and international calls and SMS, use mobile internet and utilize a wireless landline through postpaid plans with varying monthly service fees ranging from Php250 to Php3,500. *Sun Cellular* subscribers not availing of any *Call and Text Unlimited* service are charged Php5.50 per minute for calls to other *Sun Cellular* subscribers and Php6.50 to other networks. Local NDD calls are likewise charged at Php6.50 per minute.

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

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

Distribution and Discounts

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have 28 exclusive regional and 125 exclusive provincial distributors, and 85 key account dealers, 15 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business

partners on upcoming marketing strategies, promotional campaigns and new products. With the introduction of *Smart Load*, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the sachet marketing concept of consumer goods, such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, *Smart Load*'s distribution network now encompasses approximately 1.0 million retailers, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs and individual roving agents), and 20% are macro business (e.g., mall branches, supermarkets, drugstores, pawnshops and micro-financial institution outlets) established nationwide and internationally. These micro-retailers must be affiliated with one of Smart's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became more affordable and accessible to subscribers. *Sun Cellular* also offers over-the-air reloads through Sun's *Xpress Load*.

For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, call and text cards and over-the-air reloads sold. Smart compensates dealers with Php100 to Php800 in cash discounts per unit depending on the price of the prepaid phone kit sold whereas *Sun Cellular*'s cash discount of Php37 to Php450 varies based on the prepaid phone kit sold. Call and text cards and over-the-air reloads are sold at an average discount of approximately 8% and 13%, respectively for Smart, and 8% and 12%, respectively for *Sun Cellular*. Call and text cards cannot be returned or refunded and normally expire within 14 months after release from the Smart warehouse. The same policy is being applied by *Sun Cellular*.

Table of Contents*Wireless Broadband, Satellite and Other Services**Overview*

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

The following table shows information of our wireless broadband revenues and subscriber base as at and for the years ended December 31, 2013, 2012 and 2011:

	2013		December 31, 2012		2011	
	Php		Php		Php	
Wireless Broadband Revenues	9,432		8,606		6,804	
Prepaid	2,823		2,467		1,911	
Postpaid	6,609		6,139		4,893	
Wireless Broadband Subscribers	2,453,826		2,359,024		2,068,409	
<i>Prepaid</i>	<i>1,669,618</i>		<i>1,587,160</i>		<i>1,362,992</i>	
Smart	1,359,862		1,231,092		1,162,020	
Sun	309,756		356,068		200,972	
<i>Postpaid</i>	<i>784,208</i>		<i>771,864</i>		<i>705,417</i>	
Smart	549,347		495,802		454,333	
Sun	234,861		276,062		251,084	
Percentage of wireless broadband revenues to total wireless service revenues	8%		8%		7%	
Percentage of wireless broadband revenues to total service revenues	5%		5%		4%	

Smart Broadband

SBI offers *SmartBro*, a wireless broadband and data service being offered to residential consumers as well as small and medium-scale enterprises in the Philippines through the following technologies: 3G high-speed packet access, or HSPA, 4G HSPA+, LTE, broadband-enabled base stations and WiMAX. SBI's wireless broadband revenue contribution increased by Php809 million, or 12%, to Php7,558 million in 2013 from Php6,749 million in 2012. As at December 31, 2013, we had 1,909,209 subscribers, an increase of 182,315 subscribers, or 11%, as compared with 1,726,894 subscribers as at December 31, 2012. *SmartBro* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available.

SBI also 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 (Worldwide Interoperability for Microwave Access) 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.

DMPI

Through DMPI, with its *Sun Broadband Wireless* service, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. DMPI's *Sun Broadband Wireless* service offers internet users broadband wireless service with 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available. *Sun Cellular* also offers the *SBW Gadget Bundle* available under *Plans 600* and *999*, which comes with a free tablet and pocket wifi. DMPI's wireless broadband revenue contribution increased by Php17 million, or 1%, to Php1,874 million in 2013 from Php1,857 million in 2012. As at December 31, 2013, DMPI had 309,756 and 234,861 prepaid and postpaid broadband subscribers, respectively, as compared with 356,068 and 276,062 prepaid and postpaid broadband subscribers, respectively, in 2012.

PDSI

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

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

ACeS Philippines

ACeS Philippines currently owns approximately 36.99% of ACeS International Limited, or AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. See *Note 24 Related Party Transactions* and *Note 27 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. Financial Statements for further discussion regarding the ATPA.

Table of Contents

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

Revenues

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

Rates

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

SBI offers mobile internet access through *SmartBro Plug-It*, a wireless modem, and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity in places where there is Smart network coverage. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. Standard browsing charge is Php5 worth of load for Bro prepaid and Php2.50 for Bro postpaid (excluding Unli and LTE plans) for 15-minute internet access. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf85* and *Unli Surf50* for *SmartBro Plug-It Prepaid* and *SmartBro Pocket Wifi* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based and volume-based charging and longer validity periods.

SmartBro WiMAX service is available in Metropolitan Manila and selected key cities in Visayas and Mindanao. *WiMAX* is a wide area network technology that allows for a more efficient radio-band usage, improved interference avoidance and higher data rates over a longer distance. *WiMAX* unlimited broadband usage is available under Plans 799 and 999 with burst speeds of up to 512 kbps and 1 Mbps, respectively.

DMPI's *Sun Broadband Wireless* service offers internet users affordable broadband wireless service with the most advanced 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* has plans and offerings ranging from Php250 to Php1,399 with speeds of up to 3.6 Mbps, except for Plan 1399 which has a speed of up to 7.2 Mbps.

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

Fixed Line

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

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

Local Exchange Service

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries—Philcom and its subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI, Maratel and Digitel. Together, these subsidiaries account for approximately 8% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange services as at and for the years ended December 31, 2013, 2012 and 2011:

2013

2012

2011⁽¹⁾

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Number of local exchange line subscribers	2,069,419	2,063,794	2,166,295
Number of fixed line employees	7,415	7,546	9,072
Number of local exchange line subscribers per employee	279	273	239
Total local exchange service revenues (in millions)	Php 16,274	Php 16,470	Php 15,719
Local exchange service revenues as a percentage of total fixed line service revenues	26%	28%	28%
Local exchange service revenues as a percentage of total service revenues	9%	9%	10%

⁽¹⁾ Includes Digital'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 amounted to Php16,274 million in 2013, Php16,470 million in 2012 and Php15,719 million in 2011. The decrease in revenues in 2013 from 2012 was primarily due to lower weighted average billed lines and a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services, partially offset by higher installation and activation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in 2013, and 28% in each of 2012 and 2011.

Table of Contents*Rates*

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

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

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

For the *PLP* prepaid service, there are two load plans being offered: (i) Php300 load denomination with free 600 local outgoing minutes and unlimited incoming calls for one month; and (ii) Php150 load denomination with free 250 local outgoing minutes and unlimited incoming calls valid for 15 days. Both prepaid plans charges Php2 per call in excess of free local outgoing minutes.

Pursuant to a currency exchange rate adjustment, or CERA, a mechanism authorized by the NTC, we are allowed to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the Philippine peso-to-U.S. dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In a letter dated July 11, 2008, the NTC had approved our request to implement a rate rationalization program for our local service rates. In 2013, we have not made any adjustment in our monthly local service rates.

For a detailed description of these rates, see [International Long Distance Service Rates](#) and [National Long Distance Service Rates](#).

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

International Long Distance Service

Our international long distance service consists of switched voice and packet-based voice and data services that go through our IGFs. We also generate international long distance revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate on our local exchange network. Our voice services are transmitted over traditional TDM and IP networks. Revenues from our international long distance service amounted to Php11,422 million in 2013, Php10,789 million in 2012 and Php11,342 million in 2011.

The following table shows certain information about our international long distance services for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011 ⁽¹⁾
Total call volumes (in million minutes)	2,185	2,150	2,029
Inbound call volumes (in million minutes)	1,806	1,691	1,767
Outbound call volumes (in million minutes)	379	459	262

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Inbound-outbound call ratio (in minutes)	4.8:1	3.7:1	6.7:1
Total international long distance service revenues (in millions)	Php 11,422	Php 10,789	Php 11,342
International long distance service revenues as a percentage of total fixed line service revenues	18%	18%	20%
International long distance service revenues as a percentage of total service revenues	6%	6%	7%

⁽¹⁾ Includes Digitel's international long distance service revenue contribution of Php234 million and call volumes of 58 million minutes for the period from October 26, 2011 to December 31, 2011.

International long distance service historically has been a major source of our revenue. Although we experienced a decline in international long distance service revenues in 2012 due to lower inbound termination and collection rates, as well as intense competition, international long distance service revenues posted a 6% increase in 2013 mainly due to the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (i) lowering our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) being more selective in accepting incoming traffic from second- and third-tier international carriers; and (iv) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for customers. In addition,

Table of Contents

through PLDT Global, we aggregate inbound call traffic to the Philippines at our points of presence and, using our capacity in submarine cable systems connected to each point of presence, transmit calls to our network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering products and services such as international prepaid calling cards, virtual mobile services, SMS transit and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2013, 2012 and 2011:

	2013	Net Settlement 2012 (in millions)	2011
Saudi Arabia	US\$ 71	US\$ 49	US\$ 71
United Arab Emirates	31	27	18
United States	22	19	22
Canada	11	7	3
Malaysia	9	7	2
Hong Kong	7	8	9
Taiwan	7	10	12
UK	5	4	4
Japan	5	11	11
Others	14	19	25
Total	US\$ 182	US\$ 161	US\$ 177

Rates

The average termination rate for PLDT was US\$0.095 per minute in 2011, and approximately US\$0.09 in 2012 and 2013.

Rates for outbound international long distance calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in Philippine pesos. The Philippine peso amounts are determined at the time of billing. We charge a flat rate of US\$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international long distance service through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling services to 98 calling destinations (including 16 Middle East destinations) with rates ranging from Php1.50 per minute to Php15 per minute. PLDT *Budget Card* comes in two denominations: Php100, which can be consumed within 30 days from first use, and Php200, which can be consumed within 60 days from first use.

The standard IDD rate of US\$0.40 per minute is being offered in all Digitel regular retail plans. To cater to the growing overseas foreign workers market, Digitel launched *Choice Elite* offering outbound IDD rates to top destination countries for as low as US\$0.14 per minute and product bundles for Digitel DSL and *SunTel* offering a US\$0.10 per minute calling to select country destinations.

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

National Long Distance Service

Our national long distance services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers.

The following table shows certain information about our national long distance services for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011 ⁽¹⁾
Total call volumes (in million minutes)	852	971	1,126
Total national long distance service revenues (in millions)	Php 4,583	Php 5,046	Php 5,537
National long distance service revenue as a percentage of total fixed line service revenues	7%	9%	10%
National long distance service revenue as a percentage of total service revenues	3%	3%	3%

⁽¹⁾ 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.

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing, cellular text messaging and social networking sites, have negatively affected our national long distance call volumes and higher ARPU. Furthermore, certain promotions on our national long distance calling rates ended in 2013. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, as well as the interconnection among local telcos, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Table of Contents*Rates*

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

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

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

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

Data and Other Network Services

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

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011 ⁽¹⁾
Subscriber base:			
<i>Broadband</i>	961,967	887,399	842,273
<i>SWUP</i>	30,302	22,720	