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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.*

### Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Digital Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digital Telecommunications Philippines, Inc., or Digitel, our cellular service providers; Voyager Innovations, Inc., or Voyager, and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite information and messaging services provider; and certain subsidiaries of PLDT Global Corporation, or PLDT Global, our mobile virtual network operations, or MVNO, provider;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global and certain subsidiaries and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and

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

### Adoption of New Standards and Interpretations

Our accounting policies are consistent with those of the previous financial year except for the adoption of certain amendments which are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments to the standards as at January 1, 2016 did not have any significant impact on our consolidated financial position or performance. Please see *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements for further discussion.

### Performance Indicators

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

*EBITDA*

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should EBITDA be considered as an alternative to cash flows from operations, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, and operating, investing and financing cash flows. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

*Core Income*

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

**Management's Financial Review**

We use our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in millions) | |
| EBITDA | **Php61,161** | Php70,218 | Php76,750 |
| Add (deduct) adjustments: | | | |
| Equity share in net earnings of associates and joint ventures | **1,181** | 3,241 | 3,841 |
| Interest income | **1,046** | 799 | 752 |
| Gains (losses) on derivative financial instruments – net | **996** | 420 | (101) |
| Amortization of intangible assets | **(929)** | (1,076) | (1,149) |
| Asset impairment | **(1,074)** | (5,788) | (3,844) |
| Provision for income tax | **(1,909)** | (4,563) | (10,058) |
| Foreign exchange losses – net | **(2,785)** | (3,036) | (382) |
| Impairment of investments | **(5,515)** | (5,166) | – |
| Financing costs – net | **(7,354)** | (6,259) | (5,320) |
| Depreciation and amortization | **(34,455)** | (31,519) | (31,379) |
| Retroactive effect of adoption of Revised PAS 19 | **–** | – | – |
| Other income – net | **9,799** | 4,804 | 4,980 |
| Total adjustments | **(40,999)** | (48,143) | (42,660) |
| Net income from continuing operations | **20,162** | 22,075 | 34,090 |
| Net income from discontinued operations | **–** | – | – |
| Consolidated net income | **Php20,162** | Php22,075 | Php34,090 |

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in million pesos) | |
| Core income from continuing operations | **Php27,857** | Php35,212 | Php37,410 |
| Core income from discontinued operations | **–** | – | – |
| Consolidated core income | **27,857** | 35,212 | 37,410 |
| Add (deduct) adjustments: | | | |
| Gains on derivative financial instruments – net, excluding hedge costs | **1,539** | 762 | 208 |
| Net income (loss) attributable to noncontrolling interests | **156** | 10 | (1) |
| Net tax effect of aforementioned adjustments | **79** | 260 | 778 |
| Casualty losses due to Typhoon Yolanda | **–** | – | – |
| Retroactive effect of adoption of Revised PAS 19 | **–** | – | – |
| Core income adjustment on equity share in net earnings (losses) of associates and joint ventures | **(95)** | (179) | (79) |
| Asset impairment | **(1,074)** | (5,788) | (3,844) |
| Foreign exchange losses – net | **(2,785)** | (3,036) | (382) |
| Impairment of investments | **(5,515)** | (5,166) | – |
| Total adjustments | **(7,695)** | (13,137) | (3,320) |
| Adjustment to discontinued operations | **–** | – | – |
| Net income from continuing operations | **20,162** | 22,075 | 34,090 |
| Net income from discontinued operations | **–** | – | – |
| Consolidated net income | **Php20,162** | Php22,075 | Php34,090 |

### Summary Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2016, 2015 and 2014. In each of the years ended December 31, 2016, 2015 and 2014, a majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

In 2016, we changed the classification of our revenue mix to provide for a more direct comparison to the current industry presentation by providing total mobile revenues through combining our cellular and mobile broadband revenues, previously presented under wireless broadband. Consequently, our fixed wireless Home Broadband was presented as separate line item in our wireless revenue mix. We also changed the categorization of our fixed lilne data and other network services to present separately our Home Broadband and Corporate data revenue mix.

Further, we reclassified our impairment on investments not directly affecting operations, significantly impairment of Rocket, from operating expenses to other expenses. Accordingly, prior years' revenue mixes were also reclassified to conform with the current year's presentation.

| | Wireless | Fixed Line | Others | Inter-segment Transactions | Consolidated |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **For the year ended December 31, 2016** | | | | | |
| **Revenues** | **Php104,914** | **Php72,728** | **Php20** | **(Php12,400)** | **Php165,262** |
| **Expenses** | **93,204** | **61,285** | **42** | **(13,972)** | **140,559** |
| **Other income (expenses)** | **(3,517)** | **(291)** | **2,748** | **(1,572)** | **(2,632)** |
| **Income before income tax** | **8,193** | **11,152** | **2,726** | **–** | **22,071** |
| **Provision for (Benefit from) income tax** | **(1,270)** | **3,018** | **161** | **–** | **1,909** |
| **Net income/Segment profit** | **9,463** | **8,134** | **2,565** | **–** | **20,162** |
| **EBITDA** | **32,661** | **26,950** | **(22)** | **1,572** | **61,161** |
| **EBITDA margin[(1)]** | **32%** | **39%** | **–** | **–** | **39%** |
| **Core income** | **11,402** | **7,746** | **8,709** | **–** | **27,857** |
| For the year ended December 31, 2015 | | | | | |
| Revenues | 115,513 | 68,865 | – | (13,275) | 171,103 |
| Expenses | 95,358 | 58,417 | 59 | (14,566) | 139,268 |
| Other income (expenses) | (1,958) | (2,599) | 651 | (1,291) | (5,197) |
| Income before income tax | 18,197 | 7,849 | 592 | – | 26,638 |
| Provision for income tax | 2,763 | 1,656 | 144 | – | 4,563 |
| Net income/Segment profit | 15,434 | 6,193 | 448 | – | 22,075 |
| EBITDA | 44,237 | 24,749 | (59) | 1,291 | 70,218 |
| EBITDA margin[(1)] | 40% | 38% | – | – | 43% |
| Core income | 22,512 | 6,539 | 6,161 | – | 35,212 |
| For the year ended December 31, 2014 | | | | | |
| Revenues | 118,879 | 66,178 | – | (14,222) | 170,835 |
| Expenses | 89,102 | 56,855 | 56 | (15,556) | 130,457 |
| Other income (expenses) | (724) | 217 | 5,611 | (1,334) | 3,770 |
| Income before income tax | 29,053 | 9,540 | 5,555 | – | 44,148 |
| Provision for income tax | 7,158 | 2,818 | 82 | – | 10,058 |
| Net income/Segment profit | 21,895 | 6,722 | 5,473 | – | 34,090 |
| EBITDA | 50,917 | 24,555 | (56) | 1,334 | 76,750 |
| EBITDA margin[(1)] | 44% | 38% | – | – | 47% |
| Core income | 25,176 | 6,691 | 5,543 | – | 37,410 |

## Years Ended December 31, 2016 and 2015

### *Wireless*

### Revenues

We generated revenues of Php104,914 million from our wireless business in 2016, a decrease of Php10,599 million, or 9%, from Php115,513 million in 2015.

The following table shows the breakdown of our consolidated revenues by services for the years ended December 31, 2016 and 2015:

| | Wireless | Fixed Line | Others | Inter-segment Transactions | Consolidated |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **For the year ended December 31, 2016** | | | | | |
| Service Revenues | | | | | |
| *Wireless* | *Php100,582* | | | *(Php1,467)* | *Php99,115* |
| Mobile | 96,497 | | | (1,431) | 95,066 |
| Home Broadband | 2,772 | | | (14) | 2,758 |
| Digital platforms and mobile financial services | 728 | | | (19) | 709 |
| MVNO and others[(1)] | 585 | | | (3) | 582 |
| *Fixed Line* | | *Php69,006* | | *(10,920)* | *58,086* |
| Voice | | 29,630 | | (4,128) | 25,502 |
| Data | | 37,711 | | (5,984) | 31,727 |
| Home broadband | | 14,896 | | (167) | 14,729 |
| Corporate data and leased lines | | 19,980 | | (5,025) | 14,955 |
| Data Center and IT | | 2,835 | | (792) | 2,043 |
| Miscellaneous | | 1,665 | | (808) | 857 |
| *Others* | | | *Php20* | *(11)* | *9* |
| Total Service Revenues | 100,582 | 69,006 | 20 | (12,398) | 157,210 |
| Non-Service Revenues | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 4,332 | 2,909 | – | (2) | 7,239 |
| Point-product sales | – | 813 | – | – | 813 |
| Total Non-Service Revenues | 4,332 | 3,722 | – | (2) | 8,052 |
| Total revenues for the year ended December 31, 2016 | 104,914 | 72,728 | 20 | (12,400) | 165,262 |
| **For the year ended December 31, 2015** | | | | | |
| Service Revenues | | | | | |
| *Wireless* | *110,716* | | | *(1,528)* | *109,188* |
| Mobile | 105,655 | | | (1,480) | 104,175 |
| Home Broadband | 3,040 | | | (24) | 3,016 |
| Digital platforms and mobile financial services | 1,051 | | | (3) | 1,048 |
| MVNO and others[(1)] | 970 | | | (21) | 949 |
| *Fixed Line* | | *65,475* | | *(11,733)* | *53,742* |
| Voice | | 30,253 | | (4,454) | 25,799 |
| Data | | 33,748 | | (6,578) | 27,170 |
| Home broadband | | 12,338 | | (10) | *12,328* |
| Corporate data and leased lines | | 18,806 | | (5,863) | *12,943* |
| Data Center and IT | | 2,604 | | (705) | *1,899* |
| Miscellaneous | | 1,474 | | (701) | 773 |
| Total Service Revenues | 110,716 | 65,475 | – | (13,261) | 162,930 |
| Non-Service Revenues | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 4,797 | 2,692 | – | (2) | 7,487 |
| Point-product sales | – | 698 | – | (12) | 686 |
| Total Non-Service Revenues | 4,797 | 3,390 | – | (14) | 8,173 |
| **Total revenues for the year ended December 31, 2015** | **Php115,513** | **Php68,865** | **–** | **(Php13,275)** | **Php171,103** |

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2016 and 2015 by service:

| | 2016 | % | 2015 | % | Decrease Amount | Decrease % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Mobile | **Php96,497** | **92** | Php105,655 | 91 | (Php9,158) | (9) |
| Home Broadband | **2,772** | **3** | 3,040 | 3 | (268) | (9) |
| Digital platforms and mobile financial services | **728** | **1** | 1,051 | 1 | (323) | (31) |
| MVNO and others[(1)] | **585** | **–** | 970 | 1 | (385) | (40) |
| Total Wireless Service Revenues | **100,582** | **96** | 110,716 | 96 | (10,134) | (9) |
| Non-Service Revenues: | | | | | | |
| Sale of mobile handsets, mobile SIM-packs and broadband data modems | **4,332** | **4** | 4,797 | 4 | (465) | (10) |
| Total Wireless Revenues | **Php104,914** | **100** | Php115,513 | 100 | (Php10,599) | (9) |

[(1)] *Includes service revenues generated by MVNOs of PLDT Global subsidiaries.*

*Service Revenues*

Our wireless service revenues in 2016 decreased by Php10,134 million, or 9%, to Php100,582 million as compared with Php110,716 million in 2015, mainly as a result of lower revenues from mobile, home broadband, digital platforms and mobile financial services, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% in each of 2016 and 2015.

*Mobile Services*

Our mobile service revenues amounted to Php96,497 million in 2016, a decrease of Php9,158 million, or 9%, from Php105,655 million in 2015. Mobile service revenues accounted for 96% and 95% of our wireless service revenues in 2016 and 2015, respectively.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

| | 2016 | % | 2015 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Mobile Services: | | | | | | |
| Voice | **Php37,094** | **38** | Php46,129 | 44 | (Php9,035) | (20) |
| SMS | **32,745** | **34** | 37,982 | 36 | (5,237) | (14) |
| Data | **25,517** | **27** | 20,179 | 19 | 5,338 | 26 |
| Inbound roaming and others[1] | **1,141** | **1** | 1,365 | 1 | (224) | (16) |
| **Total** | **Php96,497** | **100** | Php105,655 | 100 | (Php9,158) | (9) |

(1) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

*Voice Services*

Mobile revenues from our voice services, which include all voice traffic, decreased by Php9,035 million, or 20%, to Php37,094 million in 2016 from Php46,129 million in 2015 primarily due to lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, and similar services. Mobile voice services accounted for 38% and 44% of our mobile service revenues in 2016 and 2015, respectively.

The following table shows the breakdown of our mobile voice revenues for the years ended December 31, 2016 and 2015:

| | 2016 | % | 2015 | % | Decrease Amount | % |
|---|---|---|---|---|---|---|
| | | | | (in millions) | | |
| Voice Services: | | | | | | |
| Domestic | **Php28,666** | **77** | Php35,152 | 76 | (Php6,486) | (18) |
| International | **8,428** | **23** | 10,977 | 24 | (2,549) | (23) |
| **Total** | **Php37,094** | **100** | Php46,129 | 100 | (Php9,035) | (20) |

Domestic voice service revenues decreased by Php6,486 million, or 18%, to Php28,666 million in 2016 from Php35,152 million in 2015, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php2,549 million, or 23%, to Php8,428 million in 2016 from Php10,977 million in 2015 primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar.

*SMS Services*

Mobile revenues from our SMS services, which include all SMS-related services and value-added services, or VAS, decreased by Php5,237 million, or 14%, to Php32,745 million in 2016 from Php37,982 million in 2015 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 34% and 36% of our mobile service revenues in 2016 and 2015, respectively.

The following table shows the breakdown of our mobile SMS service revenues for the years ended December 31, 2016 and 2015:

| | 2016 | % | 2015 | % | Decrease Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| SMS Services: | | | | | | |
| Domestic[1] | **Php30,848** | **94** | Php35,445 | 93 | (Php4,597) | (13) |
| International | **1,897** | **6** | 2,537 | 7 | (640) | (25) |
| Total | **Php32,745** | **100** | Php37,982 | 100 | (Php5,237) | (14) |

(1) *Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services ( revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS ( includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

*Data Services*

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,338 million, or 26%, to Php25,517 million in 2016 from Php20,179 million in 2015 primarily due to higher mobile internet revenues, mobile broadband and other data revenues.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2016 and 2015:

| | 2016 | % | 2015 | % | Increase Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Data Services: | | | | | | |
| Mobile internet[1] | **Php17,167** | **67** | Php12,055 | 60 | Php5,112 | 42 |
| Mobile broadband | **8,147** | **32** | 7,951 | 39 | 196 | 2 |
| Other data | **203** | **1** | 173 | 1 | 30 | 17 |
| Total | **Php25,517** | **100** | Php20,179 | 100 | Php5,338 | 26 |

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

*Mobile internet*

Mobile internet service revenues increased by Php5,112 million, or 42%, to Php17,167 million in 2016 from Php12,055 million in 2015 as a result of the increase in smartphone ownership and greater data usage among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other over-the-top, or OTT, services. Mobile internet services accounted for 18% and 11% of our mobile service revenues in 2016 and 2015, respectively. Data offerings such as *Smart Big Bytes Barkada*, *Shared Data*, *Giga Surf* and *App on Flexibundles* were also introduced during the year to boost data usage.

*Mobile broadband*

Mobile broadband revenues amounted to Php8,147 million in 2016, an increase of Php196 million, or 2%, from Php7,951 million in 2015 primarily due to higher mobile broadband traffic.

*Other data*

Revenues from our other data services, which include domestic leased lines and share in revenue from *PLDT WeRoam*, increased by Php30 million, or 17%, to Php203 million in 2016 from Php173 million in 2015.

*Prepaid and Postpaid Revenues, and Inbound Roaming and Others*

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 | Decrease Amount | % |
|---|---|---|---|---|
| | | (in millions) | | |
| Mobile service revenues | **Php96,497** | Php105,655 | (Php9,158) | (9) |
| *By service type* | | | | |
| Prepaid | **67,304** | 76,143 | (8,839) | (12) |
| Postpaid | **28,052** | 28,147 | (95) | – |
| Inbound roaming and others | **1,141** | 1,365 | (224) | (16) |

*Prepaid Revenues*

Revenues generated from our mobile prepaid services amounted to Php67,304 million in 2016, a decrease of Php8,839 million, or 12%, as compared with Php76,143 million in 2015. Mobile prepaid service revenues accounted for 70% and 72% of mobile service revenues in 2016 and 2015, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and text messaging revenues, partially offset by an increase in mobile internet revenues.

*Postpaid Revenues*

Revenues generated from mobile postpaid service amounted to Php28,052 million in 2016, a decrease of Php95 million as compared with Php28,147 million in 2015, and accounted for 29% and 27% of mobile service revenues in 2016 and 2015, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base.

*Inbound Roaming and Others*

Mobile revenues from inbound roaming and other services decreased by Php224 million, or 16%, to Php1,141 million in 2016 from Php1,365 million in 2015.

*Subscriber Base, Average Revenue Per User, or ARPU, and Churn Rates*

The following table shows our wireless subscriber base as at December 31, 2016 and 2015:

| | 2016 | 2015 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Mobile subscriber base | 62,763,209 | 68,612,118 | (5,848,909) | (9) |
| Smart[1] | 23,027,793 | 26,921,211 | (3,893,418) | (14) |
| *Postpaid* | ***1,383,830*** | *1,502,678* | *(118,848)* | *(8)* |
| *Prepaid* | ***21,643,963*** | *25,418,533* | *(3,774,570)* | *(15)* |
| TNT | 29,845,509 | 28,054,160 | 1,791,349 | 6 |
| Sun[1] | 9,889,907 | 13,636,747 | (3,746,840) | (27) |
| *Postpaid* | ***1,426,438*** | *2,045,580* | *(619,136)* | *(30)* |
| *Prepaid* | ***8,463,469*** | *11,591,167* | *(3,127,698)* | *(27)* |
| Home broadband subscriber base | 270,203 | 258,776 | *11,427* | *4* |
| Total wireless subscribers | 63,033,412 | 68,870,894 | *(5,837,482)* | *(8)* |

*(1) Includes mobile broadband subscribers.*

The following table summarizes our average monthly churn rates for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| | (in %) | |
| Smart | 7.5 | 6.4 |
| Postpaid | 4.8 | 3.3 |
| Prepaid | 7.6 | 6.6 |
| TNT | 6.3 | 5.7 |
| Sun | 8.5 | 10.3 |
| Postpaid | 6.4 | 4.3 |
| Prepaid | 8.8 | 11.3 |

The following table summarizes our average monthly ARPUs for the years ended December 31, 2016 and 2015:

| | Gross[1] 2016 | Gross[1] 2015 | Increase (Decrease) Amount | % | Net[2] 2016 | Net[2] 2015 | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|---|---|
| Prepaid | | | | | | | | |
| *Smart* | ***Php117*** | *Php129* | *(12)* | *(9)* | ***Php107*** | *Php118* | *(11)* | *(9)* |
| *TNT* | ***82*** | *91* | *(9)* | *(10)* | ***76*** | *84* | *(8)* | *(10)* |
| *Sun* | ***90*** | *74* | *16* | *22* | ***83*** | *68* | *15* | *22* |
| Postpaid | | | | | | | | |
| *Smart* | ***966*** | *993* | *(27)* | *(3)* | ***951*** | *982* | *(31)* | *(3)* |
| *Sun* | ***443*** | *444* | *(1)* | *–* | ***437*** | *441* | *(4)* | *(1)* |

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

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

*Home Broadband*

Revenues from our *HOMEBro* services decreased by Php268 million, or 9%, to Php2,772 million in 2016 from Php3,040 million in 2015 mainly due to the continued migration of our high-value fixed wireless subscribers from legacy technologies (*Canopy* & *Wimax*) to either TD-LTE or wired broadband (DSL/FTTH). In addition, average revenue per user has decreased as a result of price competition and PLDT's continued efforts to bring high-quality broadband services to the lower income home segments.

Subscribers of our *HOMEBro* services increased by 11,427 or 4% to 270,203 subscribers as of December 31, 2016 from 258,776 subscribers as of December 31, 2015. This significant turnaround in subscriber base was directly attributed to the launch of the country's most affordable postpaid broadband offering designed for the home – *Home Ultera Plan 699*.

*Digital Platforms and Mobile Financial Services*

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php323 million, or 31%, to Php728 million in 2016 from Php1,051 million in 2015 primarily due to lower revenues from PayMaya.

*MVNO and Others*

Revenues from our other services decreased by Php385 million, or 40%, to Php585 million in 2016 from Php970 million in 2015, primarily due to a decrease in the number of ACeS Philippines' subscribers, lower revenue contribution from MVNOs of PLDT Global, partially offset by the impact of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 for the year ended December 31, 2016 from Php45.51 for the year ended December 31, 2015 on our U.S. dollar and U.S. dollar-linked other service revenues.

***Non-Service Revenues***

Our wireless non-service revenues consist of sales of mobile handsets, mobile SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues decreased by Php465 million, or 10%, to Php4,332 million in 2016 from Php4,797 million in 2015, primarily due to lower revenues from the sale of broadband data modems, partially offset by higher revenues from sale of mobile handsets attributed to *Smart Prepaid Android Phone Kits*.

**Expenses**

Expenses associated with our wireless business amounted to Php93,204 million in 2016, a decrease of Php2,154 million, or 2%, from Php95,358 million in 2015. A significant portion of the decrease was mainly attributable to lower selling and promotions, compensation and employee benefits, rent, taxes and licenses, and interconnection costs, partially offset by higher expenses related to depreciation and amortization, asset impairment, professional and other contracted services, and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 89% and 83% in 2016 and 2015, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item in relation to the total:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | 2016 | % | 2015 | % | Amount | % |
| | | | (in millions) | | | |
| Depreciation and amortization | **Php18,984** | **20** | Php17,218 | 18 | Php1,766 | 10 |
| Cost of sales | **14,140** | **15** | 13,811 | 15 | 329 | 2 |
| Rent | **9,805** | **11** | 10,657 | 11 | (852) | (8) |
| Asset impairment | **9,284** | **10** | 8,446 | 9 | 838 | 10 |
| Repairs and maintenance | **8,367** | **9** | 8,577 | 9 | (210) | (2) |
| Interconnection costs | **8,035** | **9** | 8,513 | 9 | (478) | (6) |
| Compensation and employee benefits | **6,706** | **7** | 7,725 | 8 | (1,019) | (13) |
| Professional and other contracted services | **6,119** | **7** | 5,613 | 6 | 506 | 9 |
| Selling and promotions | **5,570** | **6** | 7,712 | 8 | (2,142) | (28) |
| Taxes and licenses | **2,675** | **3** | 3,124 | 3 | (449) | (14) |
| Insurance and security services | **1,149** | **1** | 1,190 | 1 | (41) | (3) |
| Amortization of intangible assets | **929** | **1** | 1,076 | 1 | (147) | (14) |
| Communication, training and travel | **809** | **1** | 958 | 1 | (149) | (16) |
| Cost of content | **289** | **–** | 62 | – | 227 | 366 |
| Other expenses | **343** | **–** | 676 | 1 | (333) | (49) |
| Total | **Php93,204** | **100** | Php95,358 | 100 | (Php2,154) | (2) |

Depreciation and amortization charges increased by Php1,766 million, or 10%, to Php18,984 million, primarily due to higher depreciable asset base.

Cost of sales increased by Php329 million, or 2%, to Php14,140 million, primarily due to higher average costs and increased smartphone and data-capable device issuances for *Smart Postpaid* subscribers, and increased availments for *Smart Prepaid Android Phone Kits*.

Rent expenses decreased by Php852 million, or 8%, to Php9,805 million, primarily due to lower domestic fiber optic network rental charges.

Asset impairment increased by Php838 million, or 10%, to Php9,284 million, primarily due to higher provision for doubtful accounts and inventory obsolescence, partly offset by an impairment provision for property and equipment in 2015.

Repairs and maintenance expenses decreased by Php210 million, or 2%, to Php8,367 million, mainly due to lower site and office electricity costs, lower maintenance costs on domestic cable and wire facilities, customer premises and telecoms equipment, partially offset by higher maintenance costs on site facilities and IT software as a result of our network expansion.

Interconnection costs decreased by Php478 million, or 6%, to Php8,035 million, primarily due to lower interconnection cost on international voice and text services, partially offset by an increase in interconnection charges on domestic voice and text services.

Compensation and employee benefits decreased by Php1,019 million, or 13%, to Php6,706 million, primarily due to lower salaries and employee benefits, provision for pension benefits and MRP costs. Employee headcount decreased to 7,343 as at December 31, 2016 as compared with 7,505 as at December 31, 2015.

Professional and other contracted service fees increased by Php506 million, or 9%, to Php6,119 million, primarily due to increase in managed services, facility usage costs and contracted services, partly offset by lower call center and consultancy fees.

Selling and promotion expenses decreased by Php2,142 million, or 28%, to Php5,570 million, primarily due to lower advertising and promotions, and public relations expenses, partially offset by higher commission expenses.

Taxes and licenses decreased by Php449 million, or 14%, to Php2,675 million, due to lower tax settlement, real property and other business-related taxes, partly offset by higher spectrum user fees for mobile service and radio equipment.

Insurance and security services decreased by Php41 million, or 3%, to Php1,149 million, primarily due to lower site security expenses, partially offset by higher office security expenses.

Amortization of intangible assets decreased by Php147 million, or 14%, to Php929 million, primarily due to decrease in the remaining carrying value of intangible assets.

Communication, training and travel expenses decreased by Php149 million, or 16%, to Php809 million, primarily due to lower training and travel expenses, and lower fuel costs for vehicles as a result of lower average fuel cost per liter.

Cost of content increased by Php227 million to Php289 million, primarily due to music licenses recognized as cost of service effective 2016.

Other expenses decreased by Php333 million, or 49%, to Php343 million, primarily due to lower various business and operational-related expenses.

**Other Expenses**

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2016 and 2015:

| | | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Financing costs – net | **(Php2,487)** | (Php1,799) | (Php688) | 38 |
| Foreign exchange losses – net | **(1,702)** | (1,622) | (80) | 5 |
| Equity share in net losses of associates | **(237)** | (81) | (156) | 193 |
| Interest income | **270** | 308 | (38) | (12) |
| Gain on derivative financial instruments – net | **485** | – | 485 | 100 |
| Other income – net | **154** | 1,236 | (1,082) | (88) |
| Total | **(Php3,517)** | (Php1,958) | (Php1,559) | 80 |

Our wireless business' other expenses amounted to Php3,517 million in 2016, an increase of Php1,559 million, or 80%, from Php1,958 million in 2015, primarily due to the combined effects of the following: (i) a decrease in other income – net by Php1,082 million mainly due to reversal of asset retirement obligation in 2015 and lower gain on insurance claims, partly offset by higher income from consultancy services; (ii) higher net financing costs by Php688 million due to higher outstanding loan balance, higher weighted average interest rate, higher financing charges and higher weighted average of the Philippine peso relative to the U.S. dollar in 2016, partly offset by higher capitalized interest; (iii) higher equity share in net losses of associates by Php156 million due to equity share in net losses of PHIH and ECommerce Pay in 2016, and higher share in net losses of AFPI; (iv) higher foreign exchange losses by Php80 million on account of the revaluation of net foreign currency-denominated liabilities due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016 as against the same period in 2015; (v) lower interest income by Php38 million mainly due to lower weighted average interest rate, and a decrease in the principal amount of temporary cash investments, partly offset by higher weighted average rate of the Philippine peso relative to the U.S. dollar; and (vi) net gains on derivative financial instruments of Php485 million in 2016 on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016.

**Provision for (Benefit from) Income Tax**

Benefit from income tax amounted to Php1,270 million in 2016 as against provision for income tax of Php2,763 million in 2015, primarily due to lower taxable income and recognition of deferred tax benefit relating to Smart's acquisition of DMPI's subscriber base.

**Net Income**

As a result of the foregoing, our wireless business' net income decreased by Php5,971 million, or 39%, to Php9,463 million in 2016 from Php15,434 million in 2015.

**EBITDA**

Our wireless business' EBITDA decreased by Php11,576 million, or 26%, to Php32,661 million in 2016 from Php44,237 million in 2015. EBITDA margin decreased to 32% in 2016 from 40% in 2015.

**Core Income**

Our wireless business' core income decreased by Php11,110 million, or 49%, to Php11,402 million in 2016 from Php22,512 million in 2015 on account of lower revenues and higher other expenses, partially offset by lower operating expenses and benefit for income tax in 2016.

***Fixed Line***

**Revenues**

Revenues generated from our fixed line business amounted to Php72,728 million in 2016, an increase of Php3,863 million, or 6%, from Php68,865 million in 2015.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2016 and 2015 by service segment:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2016** | **%** | **2015** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Voice | **Php29,630** | **41** | Php30,253 | 44 | (Php623) | (2) |
| Data | **37,711** | **52** | 33,748 | 49 | 3,963 | 12 |
| Miscellaneous | **1,665** | **2** | 1,474 | 2 | 191 | 13 |
| | **69,006** | **95** | 65,475 | 95 | 3,531 | 5 |
| Non-Service Revenues: | | | | | | |
| Sale of computers, phone units and SIM packs, and point-product sales | **3,722** | **5** | 3,390 | 5 | 332 | 10 |
| Total Fixed Line Revenues | **Php72,728** | **100** | Php68,865 | 100 | Php3,863 | 6 |

***Service Revenues***

Our fixed line service revenues increased by Php3,531 million, or 5%, to Php69,006 million in 2016 from Php65,475 million in 2015 due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

*Voice Services*

Revenues from our voice services decreased by Php623 million, or 2%, from Php29,630 million in 2016 from Php30,253 million in 2015 primarily due to lower international and domestic services, partially offset by higher revenues from local exchange.

The following table summarizes our voice service revenues for the years ended December 31, 2016 and 2015:

| | 2016 | % | 2015 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | | (in millions) | | |
| Voice | | | | | | |
| Local exchange | **Php17,792** | **60** | Php17,076 | 56 | Php716 | 4 |
| International | **8,056** | **27** | 9,219 | 31 | (1,163) | (13) |
| Domestic | **3,782** | **13** | 3,958 | 13 | (176) | (4) |
| Total | **Php29,630** | **100** | Php30,253 | 100 | (Php623) | (2) |

*Local Exchange*

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 | Increase Amount | % |
|---|---|---|---|---|
| Total local exchange service revenues (in millions) | **Php17,792** | Php17,076 | Php716 | 4 |
| Number of fixed line subscribers | **2,438,473** | 2,303,454 | 135,019 | 6 |
| Number of fixed line LEC employees | **7,205** | 7,039 | 166 | 2 |
| Number of fixed line subscribers per employee | **338** | 327 | 11 | 3 |

Revenues from our local exchange service increased by Php716 million, or 4%, to Php17,792 million in 2016 from Php17,076 million in 2015, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2016 and 2015.

*International*

Our international service revenues decreased by Php1,163 million, or 13%, to Php8,056 million in 2016 from Php9,219 million in 2015, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services.) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 in 2016 from Php45.51 in 2015, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 12% and 14% in 2016 and 2015, respectively.

*Domestic*

Our domestic service revenues decreased by Php176 million, or 4%, to Php3,782 million in 2016 from Php3,958 million in 2015, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 5% and 6% in 2016 and 2015, respectively.

*Data Services*

The following table shows information of our data service revenues for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 | Increase Amount | % |
|---|---|---|---|---|
| Data service revenues (in millions) | **Php37,711** | Php33,748 | Php3,963 | 12 |
| Home broadband | **14,896** | 12,338 | 2,558 | 21 |
| Corporate data and leased lines | **19,980** | 18,806 | 1,174 | 6 |
| Data Center and IT | **2,835** | 2,604 | 231 | 9 |

Our data services posted revenues of Php37,711 million in 2016, an increase of Php3,963 million, or 12%, from Php33,748 million in 2015, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 55% and 52% in 2016 and 2015, respectively.

*Home Broadband*

Home broadband data revenues amounted to Php14,896 million in 2016, an increase of Php2,558 million, or 21%, from Php12,338 million in 2015. primarily due to the company's commitment to aggressively expand the FTTH network in the Philippines, as well as an increase in the number of subscribers by 194,686, or 16%, to 1,450,550 subscribers as at December 31, 2016 from 1,255,864 subscribers as at December 31, 2015. Home broadband revenues accounted for 39% and 36% of total data service revenues in 2016 and 2015, respectively.

*Corporate Data and Leased Lines*

Corporate data and leased line services contributed Php19,980 million in 2016, an increase of Php1,174 million, or 6%, as compared with Php18,806 million in 2015, primarily due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as Internet Protocol-Virtual Private Network, or IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 53% and 56% of total data services in 2016 and 2015, respectively.

*Data Center and IT*

Data center and IT revenues increased by Php231 million, or 9%, to Php2,835 million in 2016 from Php2,604 million in 2015, primarily due to higher revenues from colocation, managed IT and social engagement solutions services. Cloud services include cloud contact center, cloud Infrastructure as a Service, cloud Software as a Service, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% in each of 2016 and 2015.

*Miscellaneous Services*

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php191 million, or 13%, to Php1,665 million in 2016 from Php1,474 million in 2015, primarily due to higher outsourcing and management fees, partly offset by royalties from directory services in 2015. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2016 and 2015.

*Non-service Revenues*

Non-service revenues increased by Php332 million, or 10%, to Php3,722 million in 2016 from Php3,390 million in 2015, primarily due to higher sale of *FabTAB for myDSL* retention and *PLP* units, computer-bundled, and *TVolution* units, partially offset by lower sale of *UNO* equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

**Expenses**

Expenses related to our fixed line business totaled Php61,285 million in 2016, an increase of Php2,868 million, or 5%, as compared with Php58,417 million in 2015. The increase was primarily due to higher expenses related to professional and other contracted services, depreciation and amortization, rent, asset impairment, repairs and maintenance, cost of content, selling and promotions, communication, training and travel, and other operating expenses, partly offset by lower expenses related to interconnection costs, compensation and employee benefits, taxes and licenses, and insurance and security services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% and 85% in 2016 and 2015, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item to the total:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2016** | **%** | **2015** | **%** | **Amount** | **%** |
| | | | | (in millions) | | |
| Depreciation and amortization | **Php15,471** | **25** | Php14,301 | 25 | Php1,170 | 8 |
| Compensation and employee benefits | **13,238** | **22** | 13,899 | 24 | (661) | (5) |
| Repairs and maintenance | **7,480** | **12** | 7,028 | 12 | 452 | 6 |
| Interconnection costs | **5,940** | **10** | 6,666 | 11 | (726) | (11) |
| Professional and other contracted services | **5,641** | **9** | 4,382 | 8 | 1,259 | 29 |
| Rent | **3,373** | **6** | 2,768 | 5 | 605 | 22 |
| Cost of sales | **2,617** | **4** | 2,596 | 4 | 21 | 1 |
| Selling and promotions | **2,133** | **3** | 2,036 | 4 | 97 | 5 |
| Asset impairment | **1,758** | **3** | 1,244 | 2 | 514 | 41 |
| Taxes and licenses | **1,131** | **2** | 1,425 | 2 | (294) | (21) |
| Insurance and security services | **697** | **1** | 715 | 1 | (18) | (3) |
| Communication, training and travel | **612** | **1** | 549 | 1 | 63 | 11 |
| Cost of content | **287** | **–** | 163 | – | 124 | 76 |
| Other expenses | **907** | **2** | 645 | 1 | 262 | 41 |
| Total | **Php61,285** | **100** | Php58,417 | 100 | Php2,868 | 5 |

Depreciation and amortization charges increased by Php1,170 million, or 8% to Php15,471 million due to a higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php661 million, or 5%, to Php13,238 million, primarily due to lower MRP costs by Php1,344 million, or 92%, to Php110 million in 2016, and lower provision for pension benefits, partially offset by higher salaries and employee benefits. Employee headcount increased to 10,695 as at December 31, 2016 as compared with 9,671 as at December 31, 2015.

Repairs and maintenance expenses increased by Php452 million, or 6%, to Php7,480 million, primarily due to higher repairs and maintenance costs on cable and wire facilities, and higher maintenance costs on IT hardware and software, and buildings, partially offset by lower office and site electricity charges.

Interconnection costs decreased by Php726 million, or 11%, to Php5,940 million, primarily due to lower international interconnection/settlement costs as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower international outbound calls, and data interconnection/
settlement costs, particularly Fibernet and Infonet.

Professional and other contracted service expenses increased by Php1,259 million, or 29%, to Php5,641 million, primarily due to higher consultancy, contracted service, and technical service fees, partially offset by lower bill printing, collection agency and legal fees.

Rent expenses increased by Php605 million, or 22%, to Php3,373 million, primarily due to higher international leased circuit, office building and pole rental charges.

Cost of sales increased by Php21 million, or 1%, to Php2,617 million, primarily due to higher sale of *FabTab for myDSL* retention, *PLP* units, computer-bundled sales, and sales of *TVolution* units, partially offset by lower sale of *UNO* equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

Selling and promotion expenses increased by Php97 million, or 5%, to Php2,133 million, primarily due to higher cost of events, and advertising and promotions expenses, partly offset by lower expenses on commissions and public relations.

Asset impairment increased by Php514 million, or 41%, to Php1,758 million, mainly due to higher provision for inventory obsolescence and doubtful accounts.

Taxes and licenses decreased by Php294 million, or 21%, to Php1,131 million as a result of lower tax settlement and other business-related taxes.

Insurance and security services decreased by Php18 million, or 3%, to Php697 million, primarily due to lower insurance and bond premiums, office security services and life insurance premiums.

Communication, training and travel expenses increased by Php63 million, or 11%, to Php612 million, mainly due to higher local training and travel, an increase in communication charges, and an increase in fuel consumption, partly offset by a decrease in average cost per liter of fuel.

Cost of content increased by Php124 million, or 76%, to Php287 million, primarily due to various partnership with content providers during the year.

Other expenses increased by Php262 million, or 41%, to Php907 million, primarily due to higher various business and operational-related expenses.

### Other Expenses

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2016 and 2015:

| | | | Change | |
|---|---|---|---|---|
| | **2016** | **2015** | **Amount** | **%** |
| | | | (in millions) | |
| Other Income (Expenses): | | | | |
| Financing costs – net | **(Php4,917)** | (Php4,509) | (Php408) | 9 |
| Foreign exchange losses – net | **(486)** | (892) | 406 | (46) |
| Equity share in net earnings (losses) of associates | **(40)** | 38 | (78) | (205) |
| Gains on derivative financial instruments – net | **511** | 420 | 91 | 22 |
| Interest income | **707** | 620 | 87 | 14 |
| Other income – net | **3,934** | 1,724 | 2,210 | 128 |
| Total | **(Php291)** | (Php2,599) | Php2,308 | (89) |

Our fixed line business' other expenses amounted to Php291 million in 2016, a decrease of Php2,308 million, or 89% from Php2,599 million in 2015 mainly due to the combined effects of the following: (i) an increase in other income – net by Php2,210 million due to gain on sale of property and lower loss on sale of fixed assets and materials; (ii) lower foreign exchange losses by Php406 million due to lower net foreign currency-denominated liabilities, partly offset by higher level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher net gain on derivative financial instruments by Php91 million on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016; (iv) an increase in interest income by Php87 million due to an increase in principal amount of temporary cash investments, higher weighted average interest rates and higher weighted average rate of the Philippine peso relative to the U.S. dollar in 2016; (v) equity share in net losses of associates of Php40 million in 2016 as against equity share in net earnings of associates of Php38 million in 2015 mainly due to the share in higher net losses of Cignal TV, partly offset by higher share in net earnings of Hastings; (vi) higher financing costs by Php408 million mainly due to higher outstanding loan balance, higher weighted average interest rate and the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016, partially offset by lower financing charges and higher capitalized interest.

### Provision for Income Tax

Provision for income tax amounted to Php3,018 million in 2016, an increase of Php1,362 million, or 82%, from Php1,656 million in 2015 primarily due to higher taxable income. The effective tax rates for our fixed line business were 27% and 21% in 2016 and 2015, respectively.

### Net Income

As a result of the foregoing, our fixed line business registered a net income of Php8,134 million in 2016, an increase of Php1,941 million, or 31%, as compared with Php6,193 million in 2015.

### EBITDA

Our fixed line business' EBITDA increased by Php2,201 million, or 9%, to Php26,950 million in 2016 from Php24,749 million in 2015. EBITDA margin increased to 39% in 2016 from 38% in 2015.

### Core Income

Our fixed line business' core income increased by Php1,207 million, or 18%, to Php7,746 million in 2016 from Php6,539 million in 2015, primarily as a result of higher revenues and lower other expenses, partially offset by higher operating expenses and provision for income tax.

### *Others*

### Expenses

Expenses related to our other business totaled Php42 million in 2016, a decrease of Php17 million, or 29%, as compared with Php59 million in 2015 primarily due to lower cash operating expenses.

### Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2016 and 2015:

| | | | Change | |
|---|---|---|---|---|
| | **2016** | **2015** | **Amount** | **%** |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Equity share in net earnings of associates and joint ventures | **Php1,458** | Php3,284 | (Php1,826) | (56) |
| Interest income | **306** | 99 | 207 | 209 |
| Financing costs – net | **(187)** | (179) | (8) | 4 |
| Foreign exchange losses – net | **(597)** | (522) | (75) | 14 |
| Other income (expenses) – net | **1,768** | (2,031) | 3,799 | (187) |
| Total | **Php2,748** | Php651 | Php2,097 | 322 |

Other income increased by Php2,097 million to Php2,748 million in 2016 from Php651 million in 2015 primarily due to the combined effects of the following: (i) other income of Php1,768 million in 2016 as against other expenses of Php2,031 million in 2015 due to higher gain on sale of Beacon shares by PCEV in 2016 as against the gain on sale of Meralco shares by Beacon in 2015, partly offset by higher impairment loss on our investment in Rocket resulting from the decline in fair value; (ii) an increase in interest income by Php207 million; (iii) higher financing costs by Php8 million; (ii) higher foreign exchange losses by Php75 million; and (v) lower equity share in net earnings of associates by Php1,826 million mainly from lower equity share in Beacon and equity share in net losses of VTI in 2016, partly offset by higher equity share in net earnings of Beta due to the sale of its SPi CRM business.

**Net Income**

As a result of the foregoing, our other business segment registered a net income of Php2,565 million in 2016, an increase of Php2,117 million from Php448 million in 2015.

**Core Income**

Our other business segment's core income amounted to Php8,709 million in 2016, an increase of Php2,548 million, or 41%, as compared with Php6,161 million in 2015 mainly as a result of higher other income and lower cash operating expenses.

**Years Ended December 31, 2015 and 2014**

***Wireless***

**Revenues**

We reported consolidated revenues of Php171,103 million in 2015, an increase of Php268 million as compared with Php170,835 million in 2014, primarily due to higher revenues from corporate data and leased lines, home broadband, data center and IT, and miscellaneous services from our fixed line business, and higher non-service revenues, partially offset by lower mobile, wireless home broadband, digital platforms and mobile financial services, and MVNO and other revenues from our wireless businesses.

The following table shows the breakdown of our consolidated revenues by services for the years ended December 31, 2015 and 2014:

| | Wireless | Fixed Line | Others | Inter-segment Transactions | Consolidated |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **For the year ended December 31, 2015** | | | | | |
| *Service* | | | | | |
| Wireless | Php110,716 | | | (Php1,528) | Php109,188 |
| *Mobile* | *105,655* | | | *(1,480)* | *104,175* |
| *Home Broadband* | *3,040* | | | *(24)* | *3,016* |
| *Digital platforms and mobile financial services* | *1,051* | | | *(3)* | *1,048* |
| *MVNO and others* | *970* | | | *(21)* | *949* |
| Fixed Line | | Php65,475 | | (11,733) | 53,742 |
| *Voice* | | *30,253* | | *(4,454)* | *25,799* |
| *Data* | | *33,748* | | *(6,578)* | *27,170* |
| Home broadband | | 12,338 | | (10) | *12,328* |
| Corporate data and leased lines | | 18,806 | | (5,863) | *12,943* |
| Data Center and IT | | 2,604 | | (705) | *1,899* |
| *Miscellaneous* | | *1,474* | | *(701)* | *773* |
| Total Service Revenues | 110,716 | 65,475 | Php– | (13,261) | 162,930 |
| *Non-Service* | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 4,797 | 2,692 | – | (2) | 7,487 |
| Point-product sales | – | 698 | – | (12) | 686 |
| Total Non-Service Revenues | 4,797 | 3,390 | – | (14) | 8,173 |
| **Total revenues for the year ended December 31, 2015** | **115,513** | **68,865** | **–** | **(13,275)** | **171,103** |
| **For the year ended December 31, 2014** | | | | | |
| *Service* | | | | | |
| Wireless | 115,037 | | | (1,582) | 113,455 |
| *Mobile* | *108,780* | | | *(1,544)* | *107,236* |
| *Home Broadband* | *4,019* | | | *(38)* | *3,981* |
| *Digital platforms and mobile financial services* | *1,056* | | | – | *1,056* |
| *MVNO and others* | *1,182* | | | – | *1,182* |
| Fixed Line | | 64,107 | | (12,619) | 51,488 |
| *Voice* | | *32,356* | | *(5,349)* | *27,007* |
| *Data* | | *30,332* | | *(6,611)* | *23,721* |
| Home broadband | | 10,935 | | – | *10,935* |
| Corporate data and leased lines | | 17,325 | | (6,045) | *11,280* |
| Data Center and IT | | 2,072 | | (566) | *1,506* |
| Miscellaneous | | 1,419 | | (659) | 760 |
| Total Service Revenues | 115,037 | 64,107 | – | (14,201) | 164,943 |
| *Non-Service* | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 3,842 | 1,524 | – | (2) | 5,364 |
| Point-product sales | | 547 | – | (19) | 528 |
| Total Non-Service Revenues | 3,842 | 2,0171 | – | (21) | 5,892 |
| **Total revenues for the year ended December 31, 2014** | **Php118,879** | **Php66,178** | **Php–** | **(Php14,222)** | **Php170,835** |

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2015 and 2014 by service:

| | 2015 | % | 2014 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Mobile | Php105,655 | 91 | Php108,780 | 92 | (Php3,125) | (3) |
| Home Broadband | 3,040 | 3 | 4,019 | 3 | (979) | (24) |
| Digital platforms and mobile financial services | 1,051 | 1 | 1,056 | 1 | (5) | – |
| MVNO and others[1] | 970 | 1 | 1,182 | 1 | (212) | (18) |
| Total Wireless Service Revenues | 110,716 | 96 | 115,037 | 97 | (4,321) | (4) |
| Non-Service Revenues: | | | | | | |
| Sale of mobile handsets, mobile SIM-packs and broadband data modems | 4,797 | 4 | 3,842 | 3 | 955 | 25 |
| **Total Wireless Revenues** | **Php115,513** | **100** | **Php118,879** | **100** | **(Php3,366)** | **(3)** |

[1] *Includes service revenues generated by MVNO's of PLDT Global subsidiaries.*

***Service Revenues***

Our wireless service revenues in 2015 decreased by Php4,321 million, or 4%, to Php110,716 million as compared with Php115,037 million in 2014, mainly as a result of lower revenues from mobile, home broadband, digital platforms and mobile financial services, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% and 97% in 2015 and 2014, respectively.

*Mobile Services*

Our mobile service revenues amounted to Php105,655 million in 2015, a decrease of Php3,125 million, or 3%, from Php108,780 million in 2015. Mobile service revenues accounted for 95% of our wireless service revenues in each of 2015 and 2014.

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2015** | **%** | **2014** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Mobile Services: | | | | | | |
| Voice | Php46,129 | 44 | Php51,785 | 48 | (Php5,656) | (11) |
| SMS | 37,982 | 36 | 41,459 | 38 | (3,477) | (8) |
| Data | 20,179 | 19 | 14,413 | 13 | 5,766 | 40 |
| Inbound roaming and others[2] | 1,365 | 1 | 1,123 | 1 | 242 | 22 |
| **Total** | **Php105,655** | **100** | **Php108,780** | **100** | **(Php3,125)** | **(3)** |

[1] *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

*Voice Services*

Mobile revenues from our voice services, which include all voice traffic, decreased by Php5,656 million, or 11%, to Php46,129 million in 2015 from Php51,785 million in 2014 resulting from lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, *GoogleTalk*, *WhatsApp* and similar services. Mobile voice services accounted for 44% and 48% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile voice revenues for the years ended December 31, 2015 and 2014:

| | | | | | Decrease | |
|---|---|---|---|---|---|---|
| | **2015** | **%** | **2014** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Voice Services: | | | | | | |
| Domestic | Php35,152 | 76 | Php37,600 | 73 | (Php2,448) | (7) |
| International | 10,977 | 24 | 14,185 | 27 | (3,208) | (23) |
| **Total** | **Php46,129** | **100** | **Php51,785** | **100** | **(Php5,656)** | **(11)** |

Domestic voice service revenues decreased by Php2,448 million, or 7%, to Php35,152 million in 2015 from Php37,600 million in 2014, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php3,208 million, or 23%, to Php10,977 million in 2015 from Php14,185 million in 2014 primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar.

*SMS Services*

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php3,477 million, or 8%, to Php37,982 million in 2015 from Php41,459 million in 2014 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 36% and 38% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile SMS service revenues for the years ended December 31, 2015 and 2014:

| | 2015 | % | 2014 | % | Decrease Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| SMS Services: | | | | | | |
| Domestic[2] | Php35,445 | 93 | Php38,270 | 92 | (Php2,825) | (7) |
| International | 2,537 | 7 | 3,189 | 8 | (652) | (20) |
| **Total** | **Php37,982** | **100** | **Php41,459** | **100** | **(Php3,477)** | **(8)** |

*[1] Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services ( revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS ( includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

*Data Services*

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,766 million, or 40%, to Php20,179 million in 2015 from Php14,413 million in 2014.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2015 and 2014:

| | 2015 | % | 2014 | % | Increase Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Data Services: | | | | | | |
| Mobile internet[2] | Php12,055 | 60 | Php8,253 | 57 | Php3,802 | 46 |
| Mobile broadband | 7,951 | 39 | 6,000 | 42 | 1,951 | 33 |
| Other data | 173 | 1 | 160 | 1 | 13 | 8 |
| **Total** | **Php20,179** | **100** | **Php14,413** | **100** | **Php5,766** | **40** |

*[1] Includes revenues from web-based services, net of discounts and content provider costs.*

*Mobile internet*

Mobile internet service revenues increased by Php3,802 million, or 46%, to Php12,055 million in 2015 from Php8,253 million in 2014 as a result of the increase in smartphone ownership and greater data adoption among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 11% and 8% of our mobile service revenues in 2015 and 2014, respectively.

*Mobile broadband*

Mobile broadband revenues amounted to Php7,951 million in 2015, an increase of Php1,951 million, or 33%, from Php6,000 million in 2014 primarily due to higher mobile broadband traffic.

*Other data*

Revenues from our other data services, which include domestic leased lines and share in revenues from *PLDT WeRoam*, increased by Php13 million, or 8%, to Php173 million in 2015 from Php160 million in 2014.

*Prepaid and Postpaid Revenues, and Inbound Roaming and Others*

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | | (in millions) | | |
| Mobile service revenues | Php105,655 | Php108,780 | (Php3,125) | (3) |
| *By service type* | | | | |
| Prepaid | 76,143 | 82,298 | (6,155) | (7) |
| Postpaid | 28,147 | 25,359 | 2,788 | 11 |
| Inbound roaming and others | 1,365 | 1,123 | 242 | 22 |

*Prepaid Revenues*

Revenues generated from our mobile prepaid services amounted to Php76,143 million in 2015, a decrease of Php6,155 million, or 7%, as compared with Php82,298 million in 2014. Mobile prepaid service revenues accounted for 72% and 76% of mobile service revenues in 2015 and 2014, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and text messaging revenues, partially offset by an increase in mobile internet revenues.

*Postpaid Revenues*

Revenues generated from mobile postpaid service amounted to Php28,147 million in 2015, an increase of Php2,788 million, or 11%, as compared with Php25,359 million in 2014, and accounted for 27% and 23% of mobile service revenues in 2015 and 2014, respectively. The increase in our mobile postpaid service revenues was primarily driven by a growing postpaid subscriber base.

*Inbound Roaming and Others*

Mobile revenues from inbound roaming and other services increased by Php242 million, or 22%, to Php1,365 million in 2015 from Php1,123 million in 2014.

*Subscriber Base, Average Revenue Per User, or ARPU, and Churn Rates*

The following table shows our mobile subscriber base as at December 31, 2015 and 2014:

| | | | Increase (Decrease) | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| Mobile subscriber base | 68,612,118 | 72,511,422 | (3,899,304) | (5) |
| Smart[1] | 26,921,211 | 27,894,947 | (973,736) | (3) |
| *Postpaid* | *1,502,678* | *1,222,764* | *279,914* | *23* |
| *Prepaid* | *25,418,533* | *26,672,183* | *(1,253,650)* | *(5)* |
| TNT | 28,054,160 | 28,149,360 | (95,200) | – |
| Sun[1] | 13,636,747 | 16,467,115 | (2,830,368) | (17) |
| *Postpaid* | *2,045,580* | *2,054,480* | *(8,900)* | *–* |
| *Prepaid* | *11,591,167* | *14,412,635* | *(2,821,468)* | *(20)* |
| Home broadband subscriber base | 258,776 | 331,781 | (73,005) | (22) |
| **Total wireless subscribers** | **68,870,894** | **72,843,203** | **(3,972,309)** | **(5)** |

*(1) Includes mobile broadband subscribers.*

The following table summarizes our average monthly churn rates for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| | (in %) | |
| Smart | 6.4 | 5.7 |
| Postpaid | 3.3 | 2.9 |
| Prepaid | 6.6 | 5.8 |
| TNT | 5.7 | 5.8 |
| Sun | 10.3 | 8.8 |
| Postpaid | 4.3 | 2.0 |
| Prepaid | 11.3 | 9.7 |

The following table summarizes our average monthly ARPUs for the years ended December 31, 2015 and 2014:

| | Gross[1] | | Increase (Decrease) | | Net[2] | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | Amount | % | 2015 | 2014 | Amount | % |
| Prepaid | | | | | | | | |
| *Smart* | Php129 | Php144 | (Php15) | (10) | Php118 | Php130 | (Php12) | (9) |
| *TNT* | 91 | 97 | (4) | (4) | 84 | 88 | (4) | (5) |
| *Sun* | 74 | 76 | (2) | (3) | 68 | 69 | (1) | (1) |
| Postpaid | | | | | | | | |
| *Smart* | 993 | 1,054 | (61) | (6) | 982 | 1,045 | (63) | (6) |
| *Sun* | 444 | 475 | (31) | (7) | 441 | 472 | (31) | (7) |

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

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

*Home Broadband*

Revenues from our home broadband services decreased by Php979 million, or 24%, to Php3,040 million in 2015 from Php4,019 million in 2014 due to lower home broadband subscribers mainly due to migration of Canopy and WiMax to TD-LTE and other PLDT fixed broadband plans.

*Digital Platforms and Mobile Financial Services*

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php5 million to Php1,051 million in 2015 from Php1,056 million in 2014.

*MVNO and Others*

Revenues from our other services decreased by Php212 million, or 18%, to Php970 million in 2015 from Php1,182 million in 2014, primarily due to a decrease in the number of ACeS Philippines' subscribers, lower revenue contribution from MVNOs of PLDT Global, partially offset by the impact of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php45.51 for the year ended December 31, 2015 from Php44.40 for the year ended December 31, 2014 on our U.S. dollar and U.S. dollar-linked other service revenues.

***Non-Service Revenues***

Our wireless non-service revenues consist of sales of mobile handsets, SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php955 million, or 25%, to Php4,797 million in 2015 from Php3,842 million in 2014, primarily due to increased availments for broadband Pocket WiFi, HOMEBro LTE, broadband tablets accessories and computer packages, as well as higher postpaid mobile activation and retention packages, partly offset by lower quantity of broadband Plug-It modems issued.

**Expenses**

Expenses associated with our wireless business amounted to Php95,358 million in 2015, an increase of Php6,256 million, or 7%, from Php89,102 million in 2014. A significant portion of the increase was attributable to higher expenses related to asset impairment, cost of sales, depreciation and amortization, compensation and employee benefits, professional and other contracted services, interconnection costs, taxes and licenses, and other operating expenses, partially offset by lower selling and promotions, rent, communications, training and travel, repairs and maintenance, insurance and security services, and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 86% and 77% in 2015 and 2014, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item in relation to the total:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | 2015 | % | 2014 | % | Amount | % |
| | | | (in millions) | | | |
| Depreciation and amortization | Php17,218 | 18 | Php16,375 | 18 | Php843 | 5 |
| Cost of sales | 13,811 | 15 | 11,632 | 13 | 2,179 | 19 |
| Rent | 10,657 | 11 | 11,008 | 12 | (351) | (3) |
| Repairs and maintenance | 8,577 | 9 | 8,666 | 10 | (89) | (1) |
| Interconnection costs | 8,513 | 9 | 8,229 | 9 | 284 | 3 |
| Asset impairment | 8,446 | 9 | 5,620 | 6 | 2,826 | 50 |
| Compensation and employee benefits | 7,725 | 8 | 6,944 | 8 | 781 | 11 |
| Selling and promotions | 7,712 | 8 | 8,512 | 10 | (800) | (9) |
| Professional and other contracted services | 5,613 | 6 | 5,299 | 6 | 314 | 6 |
| Taxes and licenses | 3,124 | 3 | 2,944 | 3 | 180 | 6 |
| Insurance and security services | 1,190 | 1 | 1,274 | 2 | (84) | (7) |
| Amortization of intangible assets | 1,076 | 1 | 1,149 | 1 | (73) | (6) |
| Communication, training and travel | 958 | 1 | 1,072 | 1 | (114) | (11) |
| Cost of content | 62 | – | – | – | 62 | 100 |
| Other expenses | 676 | 1 | 378 | 1 | 298 | 79 |
| **Total** | **Php95,358** | **100** | **Php89,102** | **100** | **Php6,256** | **7** |

Depreciation and amortization charges increased by Php843 million, or 5%, to Php17,218 million, primarily due to a higher depreciable asset base and accelerated depreciation on service delivery platforms equipment.

Cost of sales increased by Php2,179 million, or 19%, to Php13,811 million, primarily due to increased modems and devices issued for *Pocket WiFi*, *HOMEBro LTE*, broadband accessories mainly tablets, as well as an increase in handset costs attributable to higher mobile postpaid activation and retention, partially offset by lower quantity of broadband Plug-It modems issued.

Rent expenses decreased by Php351 million, or 3%, to Php10,657 million, primarily due to lower leased circuit and dark fiber rental charges, as well as lower site, office building and pole rentals.

Repairs and maintenance expenses decreased by Php89 million, or 1%, to Php8,577 million mainly due to lower site fuel consumption costs and maintenance costs on IT hardware, partially offset by higher maintenance and technical support costs on expanded network and site facilities, an increase in site electricity and higher maintenance costs on IT software.

Interconnection costs increased by Php284 million, or 3%, to Php8,513 million, primarily due to an increase in interconnection charges on domestic voice and SMS services, partially offset by lower interconnection cost on international voice and SMS services.

Asset impairment increased by Php2,826 million, or 50%, to Php8,446 million, primarily due to higher fixed asset impairment provision, provision for inventory obsolescence and provision for doubtful accounts.

Compensation and employee benefits increased by Php781 million, or 11%, to Php7,725 million, primarily due to higher salaries, manpower rightsizing program, or MRP, costs, and provision for pension, partly offset by lower incentives and employee benefits. Employee headcount decreased to 7,505 as at December 31, 2015 as compared with 7,786 as at December 31, 2014.

Selling and promotion expenses decreased by Php800 million, or 9%, to Php7,712 million primarily due to lower costs of events, advertising, commissions and public relations expenses.

Professional and other contracted service fees increased by Php314 million, or 6%, to Php5,613 million, primarily due to an increase in facility usage costs, legal and other service fees, partly offset by lower consultancy, audit and contracted service fees.

Taxes and licenses increased by Php180 million, or 6%, to Php3,124 million due to higher business-related taxes and tax settlements in 2015.

Insurance and security services decreased by Php84 million, or 7%, to Php1,190 million, primarily due to lower site and office security expenses, as well as lower group health insurance premiums.

Amortization of intangible assets decreased by Php73 million, or 6%, to Php1,076 million, primarily due to lower license fees.

Communication, training and travel expenses decreased by Php114 million, or 11%, to Php958 million, primarily due to lower fuel costs for vehicles as a result of lower average fuel cost per liter, partially offset by higher travel expenses.

Cost of content amounted to Php62 million in 2015 primarily due to fees on iflix and Fox starting June 2015 for access to movie collections and international channels.

Other expenses increased by Php298 million, or 79%, to Php676 million, primarily due to higher various business and operational-related expenses.

### Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2015 and 2014:

| | | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Financing costs – net | (Php1,799) | (Php1,646) | (Php153) | 9 |
| Foreign exchange losses – net | (1,622) | (464) | (1,158) | 250 |
| Equity share in net losses of associates | (81) | (11) | (70) | 636 |
| Loss on derivative financial instruments – net | – | (34) | 34 | (100) |
| Interest income | 308 | 217 | 91 | 42 |
| Other income – net | 1,236 | 1,214 | 22 | 2 |
| **Total** | **(Php1,958)** | **(Php724)** | **(Php1,234)** | **170** |

Our wireless business' other expenses amounted to Php1,958 million in 2015, an increase of Php1,234 million, or 170%, from Php724 million in 2014, primarily due to the combined effects of the following: (i) higher net foreign exchange losses by Php1,158 million on account of the revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (ii) higher net financing costs by Php153 million primarily due to higher outstanding loan balances, higher weighted average interest rates on loans, an increase in accretion on financial liabilities and lower capitalized interest, partly offset by lower financing charges; (iii) higher equity share in net losses of AFPI by Php70 million; (iv) an increase in other income – net by Php22 million mainly due to higher income from consultancy and higher gain on sale of fixed assets, partly offset by lower gain on insurance claims; and (v) higher interest income by Php91 million mainly due to higher weighted average peso and dollar interest rates, increase in principal amount of temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar.

### Provision for Income Tax

Provision for income tax decreased by Php4,395 million, or 61%, to Php2,763 million in 2015 from Php7,158 million in 2014 primarily due to lower taxable income and recognition of deferred tax assets. The effective tax rates for our wireless business were 15% and 25% in 2015 and 2014, respectively.

### Net Income

As a result of the foregoing, our wireless business' net income decreased by Php6,461 million, or 30%, to Php15,434 million in 2015 from Php21,895 million in 2014.

### EBITDA

Our wireless business' EBITDA decreased by Php6,680 million, or 13%, to Php44,237 million in 2015 from Php50,917 million in 2014.

### Core Income

Our wireless business' core income decreased by Php2,664 million, or 11%, to Php22,512 million in 2015 from Php25,176 million in 2014 on account of higher wireless-related operating and other expenses and lower wireless revenues, partially offset by lower provision for income tax.

### *Fixed Line*

### Revenues

Revenues generated from our fixed line business amounted to Php68,865 million in 2015, an increase of Php2,687 million, or 4%, from Php66,178 million in 2014.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2015 and 2014 by service segment:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2015** | **%** | **2014** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Voice | Php30,253 | 44 | Php32,356 | 49 | (Php2,103) | (6) |
| Data | 33,748 | 49 | 30,332 | 46 | 3,416 | 11 |
| Miscellaneous | 1,474 | 2 | 1,419 | 2 | 55 | 4 |
| | 65,475 | 95 | 64,107 | 97 | 1,368 | 2 |
| Non-Service Revenues: | | | | | | |
| Sale of computers, phone units and SIM packs, and point-product sales | 3,390 | 5 | 2,071 | 3 | 1,319 | 64 |
| **Total Fixed Line Revenues** | **Php68,865** | **100** | **Php66,178** | **100** | **Php2,687** | **4** |

*Service Revenues*

Our fixed line service revenues increased by Php1,368 million, or 2%, to Php65,475 million in 2015 from Php64,107 million in 2014 due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

*Voice Services*

Revenues from our voice services decreased by Php2,103 million, or 6%, to Php30,253 million in 2015 from Php32,356 million in 2014 due to lower international and domestic voice revenues, partly offset by higher local exchange service revenues.

The following table shows information of our voice service revenues for the years ended December 31, 2015 and 2014:

| | 2015 | % | 2014 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Voice | | | | | | |
| Local exchange | Php17,076 | 56 | Php16,587 | 51 | Php489 | 3 |
| International | 9,219 | 31 | 11,404 | 35 | (2,185) | (19) |
| Domestic | 3,958 | 13 | 4,365 | 14 | (407) | (9) |
| **Total** | **Php30,253** | **100** | **Php32,356** | **100** | **(Php2,103)** | **(6)** |

*Local Exchange*

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Total local exchange service revenues (in millions) | Php17,076 | Php16,587 | Php489 | 3 |
| Number of fixed line subscribers | 2,303,454 | 2,207,889 | 95,565 | 4 |
| Number of fixed line LEC employees | 7,039 | 7,405 | (366) | (5) |
| Number of fixed line subscribers per employee | 327 | 298 | 29 | 10 |

Revenues from our local exchange service increased by Php489 million, or 3%, to Php17,076 million in 2015 from Php16,587 million in 2014, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2015 and 2014.

*International*

Our international service revenues decreased by Php2,185 million, or 19%, to Php9,219 million in 2015 from Php11,404 million in 2014, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as Facebook, Skype, Viber, WhatsApp,and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php45.51 in 2015 from Php44.40 in 2014, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 14% and 18% in 2015 and 2014, respectively.

*Domestic*

Our domestic service revenues decreased by Php407 million, or 9%, to Php3,958 million in 2015 from Php4,365 million in 2014, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 6% and 7% in 2015 and 2014, respectively.

*Data Services*

The following table shows information of our data service revenues for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 | Increase Amount | % |
|---|---|---|---|---|
| Data service revenues (in millions) | Php33,748 | Php30,332 | Php3,416 | 11 |
| Home broadband | 12,338 | 10,935 | 1,403 | 13 |
| Corporate data and leased lines | 18,806 | 17,325 | 1,481 | 9 |
| Data Center and IT | 2,604 | 2,072 | 532 | 26 |

Our data services posted revenues of Php33,748 million in 2015, an increase of Php3,416 million, or 11%, from Php30,332 million in 2014, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 52% and 47% in 2015 and 2014, respectively.

*Home Broadband*

Home broadband data revenues amounted to Php12,338 million in 2015, an increase of Php1,403 million, or 13%, from Php10,935 million in 2014 primarily due to an increase in the number of subscribers, which includes home and corporate subscribers, by 150,496, or 14%, to 1,255,864 subscribers as at December 31, 2015 from 1,105,368 subscribers as at December 31, 2014. Home broadband revenues accounted for 36% of total data service revenues in each of 2015 and 2014.

*Corporate data and leased lines*

Corporate data and leased line services contributed Php18,806 million in 2015, an increase of Php1,481 million, or 9%, as compared with Php17,325 million in 2014 mainly due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, i-Gate, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 56% and 57% of total data services in 2015 and 2014, respectively.

*Data Center and IT*

As at December 31, 2015, ePLDT Group had a total of 3,150 rack capacity in six locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php532 million, or 26%, to Php2,604 million in 2015 from Php2,072 million in 2014 mainly due to higher revenues from colocation, cloud and big data services. Cloud services include cloud contact center, cloud IaaS, cloud SaaS, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% and 7% in 2015 and 2014, respectively.

*Miscellaneous Services*

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php55 million, or 4%, to Php1,474 million in 2015 from Php1,419 million in 2014 mainly due to higher outsourcing and management fees, partly offset by royalties from directory services in 2015. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2015 and 2014.

***Non-service Revenues***

Non-service revenues increased by Php1,319 million, or 64%, to Php3,390 million in 2015 from Php2,071 million in 2014, primarily due to higher sale of *PLP* units and *FabTAB* for *myDSL* retention, managed IT equipment and *Home IP* Cameras, partially offset by lower sale of *UNO* equipment and several managed *PABX*.

**Expenses**

Expenses related to our fixed line business totaled Php58,417 million in 2015, an increase of Php1,562 million, or 3%, as compared with Php56,855 million in 2014. The increase was primarily due to higher expenses related to compensation and employee benefits, asset impairment, cost of sales, professional and other contracted services, repairs and maintenance, and rent, partly offset by lower expenses related to interconnection costs, depreciation and amortization, taxes and licenses, communication, training and travel, and other operating expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 85% and 86% in 2015 and 2014, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item to the total:

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | 2015 | % | 2014 | % | Amount | % |
| | | | (in millions) | | | |
| Depreciation and amortization | Php14,301 | 25 | Php15,004 | 27 | (Php703) | (5) |
| Compensation and employee benefits | 13,899 | 24 | 11,825 | 21 | 2,074 | 18 |
| Repairs and maintenance | 7,028 | 12 | 6,956 | 12 | 72 | 1 |
| Interconnection costs | 6,666 | 11 | 8,030 | 14 | (1,364) | (17) |
| Professional and other contracted services | 4,382 | 8 | 4,171 | 7 | 211 | 5 |
| Rent | 2,768 | 5 | 2,706 | 5 | 62 | 2 |
| Cost of sales | 2,596 | 4 | 1,903 | 3 | 693 | 36 |
| Selling and promotions | 2,036 | 4 | 2,126 | 4 | (90) | (4) |
| Taxes and licenses | 1,425 | 2 | 1,568 | 3 | (143) | (9) |
| Asset impairment | 1,244 | 2 | 426 | 1 | 818 | 192 |
| Insurance and security services | 715 | 1 | 717 | 1 | (2) | – |
| Communication, training and travel | 549 | 1 | 643 | 1 | (94) | (15) |
| Cost of content | 163 | – | – | – | 163 | 100 |
| Other expenses | 645 | 1 | 780 | 1 | (135) | (17) |
| **Total** | **Php58,417** | **100** | **Php56,855** | **100** | **Php1,562** | **3** |

Depreciation and amortization charges decreased by Php703 million, or 5%, to Php14,301 million due to lower depreciable asset base as a result of higher accelerated depreciation in 2014.

Compensation and employee benefits expenses increased by Php2,074 million, or 18%, to Php13,899 million primarily due to higher MRP costs, salaries and employee benefits and provision for pension. Employee headcount decreased to 9,671 as at December 31, 2015 as compared with 9,710 as at December 31, 2014 mainly due to lower PLDT headcount as a result of the MRP in 2015.

Repairs and maintenance expenses increased by Php72 million, or 1%, to Php7,028 million primarily due to higher repairs and maintenance costs on cable and wire facilities, and an increase in site electricity expenses, partially offset by lower office electricity charges and lower maintenance costs on buildings.

Interconnection costs decreased by Php1,364 million, or 17%, to Php6,666 million primarily due to lower international interconnection/settlement costs as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower international outbound calls, and data interconnection/settlement costs, particularly Fibernet and Infonet.

Professional and other contracted service expenses increased by Php211 million, or 5%, to Php4,382 million primarily due to higher contracted service fees, mailing and courier charges, and legal fees, partially offset by lower consultancy fees.

Rent expenses increased by Php62 million, or 2%, to Php2,768 million primarily due to higher leased circuit, and office building rental charges, partially offset by lower customer premises equipment rental charges.

Cost of sales increased by Php693 million, or 36%, to Php2,596 million primarily due to higher sale of equipment for *PLDT UNO* and *Telpad* units, higher computer-bundled sales, *FabTAB* for *myDSL* retention, and several managed *PABX* and *OnCall* solution.

Selling and promotion expenses decreased by Php90 million, or 4%, to Php2,036 million primarily due to lower cost of events and public relations, partially offset by higher advertising and commissions expenses.

Taxes and licenses decreased by Php143 million, or 9%, to Php1,425 million as a result of lower business-related taxes, partly offset by a higher tax settlement in 2015.

Asset impairment increased by Php818 million to Php1,244 million mainly due to higher provision for uncollectible receivables in 2015, partly offset by fixed asset impairment provision in 2014.

Insurance and security services decreased by Php2 million to Php715 million primarily due to lower insurance and bond premiums, partially offset by higher expenses on office security services and group health insurance premiums.

Communication, training and travel expenses decreased by Php94 million, or 15%, to Php549 million mainly due to lower fuel consumption costs, partly offset by higher training and travel, and communication, and mailing and courier charges.

Cost of content, which includes settlement to Cignal TV for bundled service offerings and share in *iflix* and Fox contracts, amounted to Php163 million in 2015.

Other expenses decreased by Php135 million, or 17%, to Php645 million primarily due to lower various business and operational-related expenses.

### Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2015 and 2014:

| | | | Change | |
|---|---|---|---|---|
| | **2015** | **2014** | **Amount** | **%** |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Financing costs – net | (Php4,509) | (Php3,724) | (Php785) | 21 |
| Foreign exchange losses – net | (892) | (39) | (853) | 2,187 |
| Equity share in net earnings (losses) of associates | 38 | 63 | (25) | (40) |
| Gains on derivative financial instruments – net | 420 | 11 | 409 | 3,718 |
| Interest income | 620 | 350 | 270 | 77 |
| Other income – net | 1,724 | 3,556 | (1,832) | (52) |
| **Total** | **(Php2,599)** | **Php217** | **(Php2,816)** | **(1,298)** |

Our fixed line business' other expenses amounted to Php2,599 million in 2015, a change of Php2,816 million as against other income of Php217 million in 2014 mainly due to the combined effects of the following: (i) a decrease in other income – net by Php1,832 million due to gain on purchase price adjustment in 2014 in relation to the acquisition of Digitel, gain on fair value adjustment of investment property in 2014 and higher loss on sale of fixed assets in 2015; (ii) higher foreign exchange losses by Php853 million on account of revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher financing costs by Php785 million mainly due to higher outstanding loan balances, higher weighted average interest rates on loans, effect of a higher weighted average exchange rate of the Philippine peso to the U.S. dollar and lower capitalized interest; (iv) lower equity share in net earnings of associates by Php25 million mainly due to the share in net losses of Cignal TV; (v) an increase in interest income by Php270 million due to higher weighted average peso and dollar interest rates, increase in principal amount of dollar temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar; and (vi) higher gain on derivative financial instruments by Php409 million on account of mark-to-market gain on long-term currency swaps and forward purchase contracts due to higher level of depreciation of the Philippine peso relative to the U.S. dollar and wider dollar and peso interest rate differentials.

### Provision for Income Tax

Provision for income tax amounted to Php1,656 million in 2015, a decrease of Php1,162 million, or 41%, from Php2,818 million in 2014 primarily due to lower taxable income and reversal of deferred tax liability. The effective tax rates for our fixed line business were 21% and 30% in 2015 and 2014, respectively.

### Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,193 million in 2015, a decrease of Php529 million, or 8%, as compared with Php6,722 million in 2014.

### EBITDA

Our fixed line business' EBITDA increased by Php194 million, or 1%, to Php24,749 million in 2015 from Php24,555 million in 2014.

### Core Income

Our fixed line business' core income decreased by Php152 million, or 2%, to Php6,539 million in 2015 from Php6,691 million in 2014, primarily as a result of higher fixed line operating expenses and higher other expenses, partially offset by higher fixed line revenues and lower provision for income tax.

### *Others*

### Expenses

Expenses related to our other business totaled Php59 million in 2015, an increase of Php3 million, or 5%, as compared with Php56 million in 2015 primarily due to lower cash operating expenses.

### Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2015 and 2014:

| | | | Change | |
|---|---|---|---|---|
| | **2015** | **2014** | **Amount** | **%** |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Equity share in net earnings of associates and joint ventures | Php3,284 | Php3,789 | (Php505) | (13) |
| Interest income | 99 | 295 | (196) | (66) |
| Losses on derivative financial instruments – net | – | (78) | 78 | (100) |
| Financing costs – net | (179) | (60) | (119) | 198 |
| Foreign exchange losses – net | (522) | 121 | (643) | (531) |
| Other income – net | (2,031) | 1,544 | (3,575) | (232) |
| **Total** | **Php651** | **Php5,611** | **(Php4,960)** | **(88)** |

Other income decreased by Php4,960 million, or 88%, to Php651 million in 2015 from Php5,611 million in 2014 primarily due to the combined effects of the following: (i) higher other expenses – net by Php3,575 million due to recognition of impairment loss resulting from the fair value decline of our investment in Rocket, partly offset by higher realized portion of deferred gain on the sale of Meralco shares; (ii) foreign exchange losses of Php522 million in 2015 as against foreign exchange gains of Php121 million in 2014; (iii) lower equity share in net earnings of associates by

Php505 million mainly due to equity share in net losses of Cignal TV in 2015 and a decrease in the equity share in net earnings of Beta; (iv) a decrease in interest income by Php196 million; (v) an increase in financing costs by Php119 million for the year ended December 31, 2015; and (vi) losses on derivative financial instruments of Php78 million in 2014.

### Net Income

As a result of the foregoing, our other business segment registered a net income of Php448 million, a decrease of Php5,025 million, or 92%, in 2015 from Php5,473 million in 2014.

### Core Income

Our other business segment's core income amounted to Php6,161 million in 2015, an increase of Php618 million, or 11%, as compared with Php5,543 million in 2014 mainly as a result of higher other income.

### *Years Ended December 31, 2014 and 2013*

### *Wireless*

### *Revenues*

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

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

| | Wireless | Fixed Line | Others | Inter-segment Transactions | Consolidated |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| For the year ended December 31, 2014 | | | | | |
| *Service* | | | | | |
| Wireless | Php115,037 | | | (Php1,582) | Php113,455 |
| *Mobile* | *108,780* | | | *(1,544)* | *107,236* |
| *Home Broadband* | *4,019* | | | *(38)* | *3,981* |
| *Digital platforms and mobile financial services* | *1,056* | | | – | *1,056* |
| *MVNO and others* | *1,182* | | | – | *1,182* |
| Fixed Line | | Php64,107 | | (12,619) | 51,488 |
| *Voice* | | *32,356* | | *(5,349)* | *27,007* |
| *Data* | | *30,332* | | *(6,611)* | *23,721* |
| Home broadband | | 10,935 | | – | *10,935* |
| Corporate data and leased lines | | 17,325 | | (6,045) | *11,280* |
| Data Center and IT | | 2,072 | | (566) | *1,506* |
| Miscellaneous | | 1,419 | Php– | (659) | 760 |
| Others | | | – | – | – |
| Total Service Revenues | 115,037 | 64,107 | – | (14,201) | 164,943 |
| *Non-Service* | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 3,842 | 1,524 | – | (2) | 5,364 |
| Point-product sales | | 547 | – | (19) | 528 |
| Total Non-Service Revenues | 3,842 | 2,071 | – | (21) | 5,892 |
| **Total revenues for the year ended December 31, 2014** | **118,879** | **66,178** | **–** | **(14,222)** | **170,835** |
| For the year ended December 31, 2013 | | | | | |
| *Service* | | | | | |
| Wireless | 116,679 | | | (1,708) | 114,971 |
| *Mobile* | *110,701* | | | *(1,658)* | *109,043* |
| *Home Broadband* | *4,314* | | | *(46)* | *4,268* |
| *Digital platforms and mobile financial services* | *292* | | | *(4)* | *288* |
| *MVNO and others* | *1,372* | | | – | *1,372* |
| Fixed Line | | 60,834 | | (11,873) | 48,961 |
| *Voice* | | *32,279* | | (5,053) | *27,226* |
| *Data* | | *27,472* | | (6,395) | *21,077* |
| Home broadband | | 9,567 | | – | *9,567* |
| Corporate data and leased lines | | 16,137 | | (5,997) | *10,140* |
| Data Center and IT | | 1,768 | | (398) | *1,370* |
| *Miscellaneous* | | *1,083* | | (425) | *658* |
| Others | | | – | – | – |
| Total Service Revenues | 116,679 | 60,834 | – | (13,581) | 163,932 |
| *Non-Service* | | | | | |
| Sale of computers, mobile handsets and SIM-packs | 2,644 | 1,162 | – | (2) | 3,804 |
| Point-product sales | – | 535 | – | (60) | 475 |
| Total Non-Service Revenues | 2,644 | 1,697 | – | (62) | 4,279 |
| **Total revenues for the year ended December 31, 2013** | **Php119,323** | **Php62,531** | **Php–** | **(Php13,643)** | **Php168,211** |

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

| | 2014 | % | 2013 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Mobile | Php108,780 | 92 | Php110,701 | 93 | (Php1,921) | (2) |
| Home Broadband | 4,019 | 3 | 4,314 | 4 | (295) | (7) |
| Digital platforms and mobile financial services | 1,056 | 1 | 292 | – | 764 | 262 |
| MVNO and others[1] | 1,182 | 1 | 1,372 | 1 | (190) | (14) |
| Total Wireless Service Revenues | 115,037 | 97 | 116,679 | 98 | (1,642) | (1) |
| Non-Service Revenues: | | | | | | |
| Sale of mobile handsets, mobile SIM-packs and broadband data modems | 3,842 | 3 | 2,644 | 2 | 1,198 | 45 |
| **Total Wireless Revenues** | **Php118,879** | **100** | **Php119,323** | **100** | **(Php444)** | **–** |

(1) *Includes service revenues generated by MVNO's of PLDT Global subsidiaries.*

*Service Revenues*

Our wireless service revenues in 2015 decreased by Php1,642 million, or 1%, to Php115,037 million as compared with Php116,679 million in 2014, mainly as a result of lower revenues from mobile, home broadband, MVNO and other services, partially offset by higher digital platforms and mobile financial service revenues. As a percentage of our total wireless revenues, service revenues accounted for 97% and 98% in 2014 and 2013, respectively.

*Mobile Services*

Our mobile service revenues amounted to Php108,780 million in 2014, a decrease of Php1,921 million, or 2%, from Php110,701 million in 2014. Mobile service revenues accounted for 95% of our wireless service revenues in each of 2014 and 2013.

| | 2014 | % | 2013 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Mobile Services: | | | | | | |
| Voice | Php51,785 | 48 | Php52,027 | 47 | (Php242) | – |
| SMS | 41,459 | 38 | 47,290 | 43 | (5,831) | (12) |
| Data | 14,413 | 13 | 10,231 | 9 | 4,182 | 41 |
| Inbound roaming and others[1] | 1,123 | 1 | 1,153 | 1 | (30) | (3) |
| **Total** | **Php108,780** | **100** | **Php110,701** | **100** | **(Php1,921)** | **(2)** |

(1) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

*Voice Services*

Mobile revenues from our voice services, which include all voice traffic, decreased by Php242 million to Php51,785 million in 2014 from Php52,027 million in 2013 primarily due to the decline in international voice revenues, partially offset by higher domestic voice revenues. Mobile voice services accounted for 48% and 47% of our mobile service revenues in 2014 and 2013, respectively.

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

| | 2014 | % | 2013 | % | Increase (Decrease) Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Voice Services: | | | | | | |
| Domestic | Php37,600 | 73 | Php35,917 | 69 | Php1,683 | 5 |
| International | 14,185 | 27 | 16,110 | 31 | (1,925) | (12) |
| **Total** | **Php51,785** | **100** | **Php52,027** | **100** | **(Php242)** | **–** |

Domestic voice service revenues increased by Php1,683 million, or 5%, to Php37,600 million in 2014 from Php35,917 million in 2013, primarily due to an increase in domestic outbound voice service revenues, partially offset by lower domestic inbound voice service revenues .

International voice service revenues decreased by Php1,925 million, or 12%, to Php14,185 million in 2014 from Php16,110 million in 2013 primarily due to lower international inbound and outbound voice service revenues.

*SMS Services*

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php5,831 million, or 12%, to Php41,459 million in 2015 from Php47,290 million in 2014 mainly from lower bucket-priced/unlimited and standard SMS revenues. Mobile SMS services accounted for 38% and 43% of our mobile service revenues in 2014 and 2013, respectively.

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

| | 2014 | % | 2013 | % | Decrease Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| SMS Services: | | | | | | |
| Domestic[(1)] | Php38,270 | 92 | Php43,772 | 93 | (Php5,502) | (13) |
| International | 3,189 | 8 | 3,518 | 7 | (329) | (9) |
| **Total** | **Php41,459** | **100** | **Php47,290** | **100** | **(Php5,831)** | **(12)** |

[(1)] *Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services ( revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS ( includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

*Data Services*

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php4,182 million, or 41%, to Php14,413 million in 2014 from Php10,231 million in 2013.

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

| | 2014 | % | 2013 | % | Increase Amount | % |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Data Services: | | | | | | |
| Mobile internet | Php8,253 | 57 | Php4,968 | 49 | Php3,285 | 66 |
| Mobile broadband | 6,000 | 42 | 5,118 | 50 | 882 | 17 |
| Other data[(1)] | 160 | 1 | 145 | 1 | 15 | 10 |
| **Total** | **Php14,413** | **100** | **Php10,231** | **100** | **Php4,182** | **41** |

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

*Mobile internet*

Mobile internet service revenues increased by Php3,285 million, or 66%, to Php8,253 million in 2014 from Php4,968 million in 2013 as a result of higher traffic for mobile internet browsing mainly due to widened utilization of mobile applications, social networking sites and other OTT services. Mobile internet services accounted for 8% and 4% of our mobile service revenues in 2014 and 2013, respectively.

*Mobile broadband*

Mobile broadband revenues amounted to Php6,000 million in 2014, an increase of Php882 million, or 17%, from Php5,118 million in 2013 primarily due to higher mobile broadband traffic and higher subscriber base.

*Other data*

Revenues from our other data services, which include domestic leased lines and share in revenues from PLDT *WeRoam*, increased by Php15 million, or 10%, to Php160 million in 2014 from Php145 million in 2013.

*Prepaid and Postpaid Revenues, and Inbound Roaming and Others*

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

| | 2014 | 2013 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | | (in millions) | | |
| Mobile service revenues | Php108,780 | Php110,701 | (Php1,921) | (2) |
| *By service type* | | | | |
| Prepaid | 82,298 | 87,423 | (5,125) | (6) |
| Postpaid | 25,359 | 22,125 | 3,234 | 15 |
| Inbound roaming and others | 1,123 | 1,153 | (30) | (3) |

*Prepaid Revenues*

Revenues generated from our mobile prepaid services amounted to Php82,298 million in 2014, a decrease of Php5,125 million, or 6%, as compared with Php87,423 million in 2013. Mobile prepaid service revenues accounted for 76% and 79% of mobile service revenues in 2014 and 2013, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and SMS revenues, partially offset by an increase in mobile internet revenues.

*Postpaid Revenues*

Revenues generated from mobile postpaid service amounted to Php25,359 million in 2014, an increase of Php3,234 million, or 15%, as compared with Php22,125 million in 2013, and accounted for 23% and 20% of mobile service revenues in 2014 and 2013, respectively. The increase in our mobile postpaid service revenues was primarily driven by the growth of our Smart postpaid subscriber base.

*Inbound Roaming and Others*

Mobile revenues from inbound roaming and other services decreased by Php30 million, or 3%, to Php1,123 million in 2014 from Php1,153 million in 2013.

*Subscriber Base, Average Revenue Per User, or ARPU, and Churn Rates*

The following table shows our wireless subscriber base as at December 31, 2014 and 2013:

| | | | Increase (Decrease) | |
|---|---|---|---|---|
| | **2014** | **2013** | **Amount** | **%** |
| Mobile subscriber base | 72,511,422 | 72,063,359 | 448,063 | 1 |
| Smart | 27,894,947 | 26,971,498 | 923,449 | 3 |
| *Postpaid* | *1,222,764* | *1,002,949* | *219,815* | *22* |
| *Prepaid* | *26,672,183* | *25,968,549* | *703,634* | *3* |
| TNT | 28,149,360 | 29,485,017 | (1,335,657) | (5) |
| Sun | 16,467,115 | 15,606,844 | 860,271 | 6 |
| *Postpaid* | *2,054,480* | *1,723,042* | *331,438* | *19* |
| *Prepaid* | *14,412,635* | *13,883,802* | *528,833* | *4* |
| Home Broadband | 331,781 | 436,094 | (104,313) | (24) |
| **Total Wireless Subscribers** | **72,843,203** | **72,499,453** | **343,750** | **–** |

(1) *Includes mobile broadband subscribers.*

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

| | **2014** | **2013** |
|---|---|---|
| | (in %) | |
| Smart | 5.7 | 5.2 |
| Postpaid | 2.9 | 2.8 |
| Prepaid | 5.8 | 5.3 |
| TNT | 5.8 | 5.0 |
| Sun | 8.8 | 9.8 |
| Postpaid | 2.0 | 3.5 |
| Prepaid | 9.7 | 10.5 |

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

| | Gross[(1)] | | Increase (Decrease) | | Net[(2)] | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Amount | % | 2014 | 2013 | Amount | % |
| Prepaid | | | | | | | | |
| *Smart* | Php144 | Php164 | (20) | (12) | Php130 | Php144 | (Php15) | (10) |
| *TNT* | 97 | 96 | 1 | 1 | 88 | 85 | 3 | 4 |
| *Sun* | 76 | 73 | 3 | 4 | 69 | 65 | 1 | 2 |
| Postpaid | | | | | | | | |
| *Smart* | 1,054 | 1,119 | (65) | (6) | 1,045 | 1,107 | (29) | (3) |
| *Sun* | 475 | 487 | (12) | (2) | 472 | 484 | (7) | (1) |

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

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

*Home Broadband*

Revenues from our home broadband services decreased by Php295 million, or 7%, to Php4,019 million in 2014 from Php4,314 million in 2013 due to lower home broadband subscribers.

*Digital Platforms and Mobile Financial Services*

Revenues from digital platforms and mobile financial services, as reported by Voyager, increased by Php764 million to Php1,056 million in 2014 from Php292 million in 2013 mainly attributable to PayMaya's share in Smart Money's peer-to-peer transaction fees and revenues.

*MVNO and Others*

Revenues from our other services decreased by Php190 million, or 14%, to Php1,182 million in 2015 from Php1,372 million in 2014, primarily due to a decrease in the number of ACeS Philippines' subscribers and lower revenue contribution from MVNO of PLDT Global, partially offset by the effect of higher weighted average exchange rate of Php44.40 for the year ended December 31, 2014 from Php42.44 for the year ended December 31, 2013 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

*Non-Service Revenues*

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

***Expenses***

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

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

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2014** | **%** | **2013** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Depreciation and amortization | Php16,375 | 18 | Php16,358 | 19 | Php17 | – |
| Cost of sales | 11,632 | 13 | 10,182 | 12 | 1,450 | 14 |
| Rent | 11,008 | 12 | 10,148 | 12 | 860 | 8 |
| Repairs and maintenance | 8,666 | 10 | 7,861 | 9 | 805 | 10 |
| Selling and promotions | 8,512 | 10 | 7,944 | 10 | 568 | 7 |
| Interconnection costs | 8,229 | 9 | 8,141 | 10 | 88 | 1 |
| Compensation and employee benefits | 6,944 | 8 | 8,730 | 10 | (1,786) | (20) |
| Asset impairment | 5,620 | 6 | 3,918 | 5 | 1,702 | 43 |
| Professional and other contracted services | 5,299 | 6 | 4,841 | 6 | 458 | 9 |
| Taxes and licenses | 2,944 | 3 | 2,410 | 3 | 534 | 22 |
| Insurance and security services | 1,274 | 2 | 1,156 | 1 | 118 | 10 |
| Amortization of intangible assets | 1,149 | 1 | 1,018 | 1 | 131 | 13 |
| Communication, training and travel | 1,072 | 1 | 1,029 | 1 | 43 | 4 |
| Other expenses | 378 | 1 | 938 | 1 | (560) | (60) |
| **Total** | **Php89,102** | **100** | **Php84,674** | **100** | **Php4,428** | **5** |

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

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

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

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

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

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

Compensation and employee benefits expenses decreased by Php1,786 million, or 20%, to Php6,944 million, primarily due to lower MRP and LTIP costs, and salaries and employee benefits, partly offset by higher provision for pension benefits. Employee headcount increased to 7,786 as at December 31, 2014 as compared with 7,745 as at December 31, 2013.

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

Professional and other contracted service fees increased by Php458 million, or 9%, to Php5,299 million, primarily due to an increase in audit, outsourced and contracted service fees, market research and collection agency fees, partly offset by lower consultancy service fees.

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

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

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

Communication, training and travel expenses increased by Php43 million, or 4%, to Php1,072 million, primarily due to higher fuel consumption costs for vehicles, and freight and hauling, partially offset by lower communication charges and local training expenses.

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

***Other Expenses***

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

| | | | Change | |
|---|---|---|---|---|
| | 2014 | 2013 | Amount | % |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Financing costs – net | (Php1,646) | (Php3,232) | Php1,586 | (49) |
| Foreign exchange losses – net | (464) | (1,814) | 1,350 | (74) |
| Equity share in net losses of associates | (11) | (54) | 43 | (80) |
| Loss on derivative financial instruments – net | (34) | (18) | (16) | 89 |
| Interest income | 217 | 324 | (107) | (33) |
| Other income – net | 1,214 | 928 | 286 | 31 |
| **Total** | **(Php724)** | **(Php3,866)** | **Php3,142** | **(81)** |

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

### *Provision for Income Tax*

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

### *Net Income*

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

### *EBITDA*

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

### *Core Income*

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

### *Fixed Line*

### Revenues

Revenues generated from our fixed line business amounted to Php66,178 million in 2014, an increase of Php3,647 million, or 6%, from Php62,531 million in 2013.

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

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2014** | **%** | **2013** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Service Revenues: | | | | | | |
| Voice | Php32,356 | 49 | Php32,279 | 51 | Php77 | – |
| Data | 30,332 | 46 | 27,472 | 44 | 2,860 | 10 |
| Miscellaneous | 1,419 | 2 | 1,083 | 2 | 336 | 31 |
| | 64,107 | 97 | 60,834 | 97 | 3,273 | 5 |
| Non-Service Revenues: | | | | | | |
| Sale of computers, phone units and SIM packs, and point-product sales | 2,071 | 3 | 1,697 | 3 | 374 | 22 |
| **Total Fixed Line Revenues** | **Php66,178** | **100** | **Php62,531** | **100** | **Php3,647** | **6** |

*Service Revenues*

Our fixed line service revenues increased by Php3,273 million, or 5%, to Php64,107 million in 2015 from Php60,834 million in 2014 due to higher revenues from our data, miscellaneous and voice services.

*Voice Services*

Revenues from our voice services increased by Php77 million to Php32,356 million in 2014 from Php32,279 million in 2013 due to higher local exchange service revenues, partly offset by lower international and domestic voice revenues.

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | **2014** | **%** | **2013** | **%** | **Amount** | **%** |
| | | | (in millions) | | | |
| Voice | | | | | | |
| Local exchange | Php16,587 | 51 | Php16,274 | 51 | Php313 | 2 |
| International | 11,404 | 35 | 11,422 | 35 | (18) | – |
| Domestic | 4,365 | 14 | 4,583 | 14 | (218) | (5) |
| **Total** | **Php32,356** | **100** | **Php32,279** | **100** | **Php77** | **–** |

*Local Exchange*

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

| | 2014 | 2013 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| Total local exchange service revenues (in millions) | Php16,587 | Php16,274 | Php313 | 2 |
| Number of fixed line subscribers | 2,207,889 | 2,069,419 | 138,470 | 7 |
| Number of fixed line LEC employees | 7,405 | 7,350 | 55 | 1 |
| Number of fixed line subscribers per employee | 298 | 282 | 19 | 7 |

Revenues from our local exchange service increased by Php313 million, or 2%, to Php16,587 million in 2014 from Php16,274 million in 2013, primarily due to an increase in subscriber base. The percentage contribution of local exchange revenues to our total fixed line service revenues were 26% and 27% in 2014 and 2013, respectively.

*International*

Our international service revenues decreased by Php18 million to Php11,404 million in 2014 from Php11,422 million in 2013, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php44.40 in 2014 from Php42.44 in 2013, and the net increase in average billing and settlement rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 18% and 19% in 2014 and 2013, respectively.

*Domestic*

Our domestic service revenues decreased by Php218 million, or 5%, to Php4,365 million in 2014 from Php4,583 million in 2013, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 7% and 8% in 2014 and 2013, respectively.

*Data Services*

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

| | 2014 | 2013 | Increase Amount | % |
|---|---|---|---|---|
| Data service revenues (in millions) | Php30,332 | Php27,472 | Php2,860 | 10 |
| Home broadband | 10,935 | 9,567 | 1,368 | 14 |
| Corporate data and leased lines | 17,325 | 16,137 | 1,188 | 7 |
| Data Center and IT | 2,072 | 1,768 | 304 | 17 |

Our data services posted revenues of Php30,332 million in 2014, an increase of Php2,860 million, or 10%, from Php27,472 million in 2013, primarily due to higher fixed broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 47% and 45% in 2014 and 2013, respectively.

*Home Broadband*

Home broadband data revenues amounted to Php10,935 million in 2014, an increase of Php1,368 million, or 14%, from Php9,567 million in 2013 primarily due to an increase in the number of subscribers, which includes home and corporate subscribers, by 125,984, or 13%, to 1,105,368 subscribers as at December 31, 2014 from 979,384 subscribers as at December 31, 2013. Home broadband revenues accounted for 36% and 35% of total data service revenues in 2014 and 2013, respectively.

*Corporate data and leased lines*

Corporate data and leased line services contributed Php17,325 million in 2014, an increase of Php1,188 million, or 7%, as compared with Php16,137 million in 2013 mainly due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 57% and 59% of total data services in 2014 and 2013, respectively.

*Data Center and IT*

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. As at December 31, 2014, ePLDT Group has a total of 2,340 rack capacity in three locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php304 million, or 17%, to Php2,072 million in 2014 from Php1,768 million in 2013 mainly due to higher revenues from co-location and managed services. The percentage contribution of this service segment to our total data service revenues were 7% and 6% in 2014 and 2013, respectively.

*Miscellaneous Services*

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php336 million, or 31%, to Php1,419 million in 2014 from Php1,083 million in 2013 mainly due to higher outsourcing and management fees, partly offset by royalties from directory services in 2014. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2014 and 2013.

*Non-service Revenues*

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

***Expenses***

Expenses related to our fixed line business totaled Php56,855 million in 2014, an increase of Php881 million, or 2%, as compared with Php55,974 million in 2013. The increase was primarily due to higher expenses related to depreciation and amortization, repairs and maintenance, professional and other contracted services, selling and promotions, cost of sales, communication, training and travel, and taxes and licenses, partly offset by lower expenses related to asset impairment, compensation and employee benefits, interconnection costs and rent. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 86% and 90% in 2014 and 2013, respectively.

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

| | | | | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | 2014 | % | 2013 | % | Amount | % |
| | | | (in millions) | | | |
| Depreciation and amortization | Php15,004 | 27 | Php13,946 | 25 | Php1,058 | 8 |
| Compensation and employee benefits | 11,825 | 21 | 12,668 | 23 | (843) | (7) |
| Interconnection costs | 8,030 | 14 | 8,196 | 15 | (166) | (2) |
| Repairs and maintenance | 6,956 | 12 | 5,930 | 10 | 1,026 | 17 |
| Professional and other contracted services | 4,171 | 7 | 3,794 | 7 | 377 | 10 |
| Rent | 2,706 | 5 | 2,794 | 5 | (88) | (3) |
| Selling and promotions | 2,126 | 4 | 1,860 | 3 | 266 | 14 |
| Cost of sales | 1,903 | 3 | 1,665 | 3 | 238 | 14 |
| Taxes and licenses | 1,568 | 3 | 1,515 | 3 | 53 | 3 |
| Insurance and security services | 717 | 1 | 762 | 1 | (45) | (6) |
| Communication, training and travel | 643 | 1 | 546 | 1 | 97 | 18 |
| Asset impairment | 426 | 1 | 1,624 | 3 | (1,198) | (74) |
| Amortization of intangible assets | – | – | 2 | – | (2) | (100) |
| Other expenses | 780 | 1 | 672 | 1 | 108 | 16 |
| **Total** | **Php56,855** | **100** | **Php55,974** | **100** | **Php881** | **2** |

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

Compensation and employee benefits expenses decreased by Php843 million, or 7%, to Php11,825 million, primarily due to lower MRP, LTIP costs, and salaries and employee benefits, partially offset by higher provision for pension benefits. Employee headcount decreased to 9,710 in 2014 as compared with 10,154 in 2013 mainly due to a decrease in ePLDT Group's headcount.

Interconnection costs decreased by Php166 million, or 2%, to Php8,030 million, primarily due to lower national interconnection/settlement costs due to lower national sent paid calls that terminated to other domestic carriers and data interconnection/settlement costs particularly Fibernet and Infonet, partially offset by higher international interconnection/settlement costs as a result of higher average settlement rate to other domestic carriers.

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

Professional and other contracted service expenses increased by Php377 million, or 10%, to Php4,171 million, primarily due to higher contracted, payment facility and technical service fees, partially offset by lower consultancy, legal fees, outsource costs and bill printing fees.

Rent expenses decreased by Php88 million, or 3%, to Php2,706 million, primarily due to decrease in leased circuit rental charges.

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

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

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

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

Communication, training and travel expenses increased by Php97 million, or 18%, to Php643 million mainly due to higher training and travel, and communication, and mailing and courier charges, partly offset by lower fuel consumption costs.

Asset impairment decreased by Php1,198 million, or 74%, to Php426 million mainly due to lower provision for uncollectible receivables, partly offset by fixed asset impairment on certain transmission facilities in 2014.

Amortization of intangible assets amounted to Php2 million in 2013.

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

*Other Expenses*

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

| | | | Change | |
|---|---|---|---|---|
| | 2014 | 2013 | Amount | % |
| | | (in millions) | | |
| Other Income (Expenses): | | | | |
| Financing costs – net | (Php3,724) | (Php3,390) | (Php334) | 10 |
| Foreign exchange losses – net | (39) | (1,503) | 1,464 | (97) |
| Equity share in net earnings (losses) of associates | 63 | (86) | 149 | (173) |
| Gains on derivative financial instruments – net | 11 | 523 | (512) | (98) |
| Interest income | 350 | 392 | (42) | (11) |
| Other income – net | 3,556 | 4,618 | (1,062) | (23) |
| **Total** | **Php217** | **Php554** | **(Php337)** | **(61)** |

Our fixed line business' other income amounted to Php217 million in 2013, a decrease of Php337 million, or 61%, from Php554 million in 2013 due to the combined effects of the following: (i) a decrease in other income by Php1,062 million due to gain on sale of Philweb shares in 2013 and lower gain on insurance claims, partially offset by higher gain on fair value adjustment on investment properties and gain on purchase price adjustment in relation with the acquisition of Digitel recognized in 2014; (ii) lower gain on derivative financial instruments by Php512 million due to narrower dollar and peso interest rate differentials in 2014 as compared with 2013, and losses on matured Euro/U.S. dollar forward purchase contracts due to the appreciation of the U.S. dollar relative to the Euro; (iii) higher financing costs by Php334 million mainly due to higher outstanding debt balance and the effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partly offset by lower financing charges, lower average interest rate, and higher capitalized interest; (iv) a decrease in interest income by Php42 million due to lower weighted average peso and dollar interest rates, partly offset by higher amount of placements and the depreciation of the Philippine peso to the U.S. dollar; (v) lower foreign exchange losses by Php1,464 million on account of revaluation of net foreign currency-denominated liabilities due to lower level of depreciation of the Philippine peso relative to the U.S. dollar; and (vi) equity share in net earnings of associates of Php63 million in 2014 as against equity share in net losses of associates of Php86 million in 2013 mainly due the increase in the share in net earnings of Cignal TV.

**Provision for Income Tax**

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

**Net Income**

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

**EBITDA**

Our fixed line business' EBITDA increased by Php3,317 million, or 16%, to Php24,555 million in 2014 from Php21,238 million in 2013.

**Core Income**

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

***Others***

**Expenses**

Expenses related to our other business totaled Php56 million in 2014, a decrease of Php51 million as compared with Php5 million in 2013 primarily due to lower cash operating expenses.

**Other Income**

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

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

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

**Net Income**

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

### Core Income

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

### Plans

We are the largest telecommunications company in the Philippines in terms of revenues and subscribers. We offer the broadest range of telecommunications services among all operators in the Philippines. We intend to reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services.

Our 2017 estimated consolidated capital expenditures is approximately Php46 billion, of which approximately Php29 billion is estimated to be spent by our wireless segment and approximately Php17 billion is estimated to be spent by our fixed line segment. Our capital spending is focused on our ambition to deliver the best customer experience through reliable products, services and touch points.

We will expand our LTE network in line with our commitment to substantially cover the country's cities and municipalities by end 2018. There will be more focus on the expansion and upgrade of our fixed access networks for cable fortification and resiliency in various locations. By yearend, we target 4.4 million homes passed for our fiber access network and modernized 1.7 million lines of our copper network to enable fiber-like speeds. The expansion of our national and domestic networks will follow the roll-out of our access networks to ensure end-to-end best customer experience.

The transformation of our service delivery platforms and IT will continue in order to enable a real-time, on demand and personalized customer experience across all touch points and channels.

Our capital expenditure budget includes projects addressing the following objectives:

(1) Commercial Objectives – these include the expansion of capacity and footprint of wired and wireless, as well as new platforms to expand service offerings;

(2) Technical Objectives – these include the transformation of service delivery platform of the group in order to realize operating and cost efficiencies, the provision of greater resilience and redundancy for the network, as well as investments in additional cable systems; and

(3) IT/Support Systems – these include the upgrade of our IT and support systems.

We expect to fund incremental capital expenditures from both debt and free cash flow.

### Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2016, 2015 and 2014 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2016 and 2015:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in millions) | |
| Cash Flows | | | |
| Net cash flows from operations | 48,976 | 69,744 | 66,015 |
| Net cash used in investing activities | (41,982) | (39,238) | (51,686) |
| *Capital expenditures* | 42,825 | 43,175 | 34,759 |
| Net cash used in financing activities | (15,341) | (11,385) | (19,897) |
| Net increase (decrease) in cash and cash equivalents | (7,733) | 19,796 | (5,246) |

| | 2016 | 2015 |
|---|---|---|
| Capitalization | (in millions) | |
| Interest-bearing financial liabilities: | | |
| Long-term financial liabilities: | | |
| Long-term debt | 151,759 | 143,982 |
| Current portion of interest-bearing financial liabilities: | | |
| Long-term debt maturing within one year | 33,273 | 16,910 |
| Obligations under finance lease maturing within one year | – | 1 |
| | 33,273 | 16,911 |
| Total interest-bearing financial liabilities | 185,032 | 160,893 |
| Total equity attributable to equity holders of PLDT | 108,175 | 113,608 |
| | 293,207 | 274,501 |
| Other Selected Financial Data | | |
| Total assets | 475,119 | 455,095 |
| Property, plant and equipment – net | 203,188 | 195,782 |
| Cash and cash equivalents | 38,722 | 46,455 |
| Short-term investments | 2,738 | 1,429 |

Our consolidated cash and cash equivalents and short-term investments totaled Php41,460 million as at December 31, 2016. Principal sources of consolidated cash and cash equivalents in 2016 were cash flows from operating activities amounting to Php48,976 million, proceeds from availment of long-term debt of Php40,569 million, proceeds from disposal of investment in Beacon of Php17,000 million; dividends received of Php4,409 million, proceeds from disposal of property and equipment of Php1,889 million, interest received of Php947 million and net proceeds from redemption of investment in debt securities of Php589 million. These funds were used principally for: (1) capital expenditures, including capitalized interest, of Php42,825 million; (2) cash dividend payments of Php22,987 million; (3) payment for purchase of investment in VTI, Bow Arken and Brightshare by Php21,524 million; (4) debt principal and interest payments of Php19,650 million and Php6,512 million, respectively; (5) reduction in capital expenditures under long-term financing of Php6,040 million; (6) net payment for purchase of short-term investments of Php1,177 million; (7) net payment for purchase of available-for-sale investments of Php998 million; and (8) settlement of derivative financial instruments of Php541 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php47,884 million as at December 31, 2015. Principal sources of consolidated cash and cash equivalents in 2015 were cash flows from operating activities amounting to Php69,744 million, proceeds from availment of long-term debt of Php44,367 million, dividends received of Php5,544 million, interest received of Php939 million, proceeds from disposal of property, plant and equipment of Php334 million, net additions to capital expenditures under long-term financing of Php311 million and proceeds from redemption of investment in debt securities of Php292 million. These funds were used principally for: (1) capital outlays, including capitalized interest, of Php43,175 million; (2) dividend payments of Php32,532 million; (3) debt principal and interest payments of Php17,084 million and Php5,407 million, respectively; (4) purchase of investment in associates and joint ventures of Php1,274 million; (5) payment for purchase of available-for-sale investments of Php925 million; (6) net payment for purchase of short-term investments of Php725 million; and (7) settlement of derivative financial instruments of Php638 million.

#### *Operating Activities*

Our consolidated net cash flows provided by operating activities decreased by Php20,768 million, or 30%, to Php48,976 million in 2016 from Php69,744 million in 2015, primarily due to lower collection efficiency, lower operating income, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid.

Our consolidated net cash flows from operations increased by Php3,729 million, or 6%, to Php69,744 million in 2015 from Php66,015 million in 2014, primarily due to higher level of collection of outstanding receivables, lower level of settlement of accounts payable and lower corporate taxes paid, partially offset by lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments.

Cash flows provided by operating activities of our wireless business decreased by Php21,931 million, or 47%, to Php24,988 million in 2016 from Php46,919 million in 2015 primarily due to lower operating income, lower collection efficiency, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid. Cash flows provided by operating activities of our fixed line business increased by Php2,329 million, or 10%, to Php24,885 million in 2016 from Php22,556 million in 2015, primarily due to higher operating income and lower pension contribution, partly offset by lower collection efficiency and higher prepayments. Cash flows used in operating activities of our other business amounted to Php829 million in 2016 as against cash flows provided by operating activities of Php740 million in 2015 due to operating loss in 2016.

Cash flows from operations of our wireless business decreased by Php2,965 million, or 6%, to Php46,919 million in 2015 from Php49,884 million in 2014 primarily due to lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments, partially offset by lower corporate taxes paid, lower level of settlement of accounts payable and higher level of collection of outstanding receivables. Cash flows from operations of our fixed line business increased by Php4,411 million, or 24%, to Php22,556 million in 2015 from Php18,145 million in 2014, primarily due to higher level of collection of accounts receivable, lower level of settlement of accounts payable and higher operating income, partially offset by the settlement of LTIP in 2015, higher pension contribution and higher level of settlement of other liabilities. Cash flows from operations of our other business amounted to Php740 million in 2015 as against cash flows used in operations of Php1,818 million in 2014 primarily due to higher level of collection of accounts receivables, lower settlement of accounts payable and higher operating income, partly offset by higher level of settlement of accrued expenses and other liabilities.

***Investing Activities***

Consolidated net cash flows used in investing activities amounted to Php41,982 million in 2016, an increase of Php2,744 million, or 7%, from Php39,238 million in 2015, primarily due to the combined effects of the following: (1) higher net payment for purchase of investment in joint ventures and associates by Php3,250 million specifically for the purchase of SMC's telecommunications business, partly offset by the sale of PCEV's share in Beacon; (2) lower dividends received by Php1,135 million; (3) higher net payment for purchase of short-term investments by Php452 million; (4) higher net payment for purchase of available-for-sale investments by Php73 million; (5) lower payment for purchase of investments – net of cash acquired by Php131 million; (6) proceeds from redemption of investment in debt securities by Php297 million; (7) lower capital expenditures by Php350 million; and (8) higher proceeds from disposal of property and equipment by Php1,555 million.

Consolidated net cash flows used in investing activities amounted to Php39,238 million in 2015, a decrease of Php12,448 million, or 24%, from Php51,686 million in 2014, primarily due to the combined effects of the following: (1) lower purchase of available-for-sale financial investments by Php18,786 million; (2) higher dividends received by Php3,689 million; (3) higher interest received by Php357 million; (4) higher capital expenditures by Php8,416 million; (5) net proceeds from redemption of investment in debt securities by Php1,310 million; (6) higher payment for purchase of investment in joint ventures and associates by Php974 million; and (7) higher payment for purchase of short-term investments by Php806 million.

Our consolidated capital expenditures, including capitalized interest, in 2016 totaled Php42,825 million, a decrease of Php350 million, or 1%, as compared with Php43,175 million in 2015, primarily due to PLDT's lower capital spending, partially offset by Smart Group's higher capital spending. Smart Group's capital spending, increased by Php1,782 million, or 6%, to Php32,089 million in 2016 from Php30,307 million in 2015, primarily focused on expanding 3G, 4G and LTE coverage and reach, as well as capacity and service enhancements. PLDT's capital spending decreased by Php3,201 million, or 28%, to Php8,058 million in 2016 from Php11,259 million in 2015. The capex spending was used to finance the continuous facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency, and acquisition of new platforms to complement introduction of new products and services, as well as expansion of our data center business. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures, including capitalized interest, in 2015 totaled Php43,175 million, an increase of Php8,416 million, or 24%, as compared with Php34,759 million in 2014, primarily due to Smart Group's and PLDT's higher capital spending. Smart Group's capital spending, which increased by Php7,266 million, or 32%, to Php30,307 million in 2015 from Php23,041 million in 2014, primarily focuses on expanding coverage and reach, as well as service enhancement. PLDT's capital spending, which increased by Php562 million, or 5%, to Php11,259 million in 2015 from Php10,697 million in 2014, was principally used to finance the facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency in various locations and acquisition of new platforms to complement introduction of new products and services. The balance represented other subsidiaries' capital spending.

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

***Financing Activities***

On a consolidated basis, cash flows used in financing activities amounted to Php15,341 million in 2016, an increase of Php3,956 million, or 35%, from Php11,385 million in 2015, resulting largely from the combined effects of the following: (1) net settlement of capital expenditures under long-term financing by Php6,351 million; (2) lower proceeds from availment of long-term debt by Php3,798 million; (3) higher payments of long-term debt by Php2,566 million; (4) higher interest payments by Php1,105 million; (5) lower settlement of derivative financial instruments of Php97 million; and (6) lower cash dividends paid by Php9,545 million.

On a consolidated basis, net cash flows used in financing activities amounted to Php11,385 million in 2015, a decrease of Php8,512 million, or 43%, from Php19,897 million in 2014, resulting largely from the combined effects of the following: (1) lower cash dividend payments by Php7,368 million; (2) higher proceeds from availment of long-term debt by Php3,038 million; (3) net additions to capital expenditures under long-term financing by Php395 million; (4) higher net payments of long-term debt by Php1,358 million; (5) higher interest payments by Php671 million; and (6) proceeds from issuance of capital stock of Php166 million in 2014.

**Debt Financing**

Proceeds from availment of long-term debt for the year ended December 31, 2016 amounted to Php40,569 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and refinancing maturing loan obligations. Payments of principal and interest on our total debt amounted to Php19,650 million and Php6,512 million, respectively, for the year ended December 31, 2016.

Proceeds from availment of long-term debt for the year ended December 31, 2015 amounted to Php44,367 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and refinancing maturing loan obligations. Payments of principal and interest on our total debt amounted to Php17,084 million and Php5,407 million, respectively, for the year ended December 31, 2015.

Our consolidated long-term debt increased by Php24,140 million, or 15%, to Php185,032 million as at December 31, 2016 from Php160,892 million as at December 31, 2015 primarily due to drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar, partly offset by debt amortizations and prepayments. As at December 31, 2016, the long-term debt levels of PLDT and Smart increased by 17% and 21% to Php109,867 million and Php74,851 million, respectively, while DMPI's decreased by 94% to Php314 million, as compared with December 31, 2015.

Our consolidated long-term debt increased by Php30,769 million, or 24%, to Php160,892 million as at December 31, 2015 from Php130,123 million as at December 31, 2014 primarily due to drawings from our term loan facilities and the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php47.12 as at December 31, 2015 from Php44.74 as at December 31, 2014, partially offset by debt amortizations and prepayments. As at December 31, 2015, the long-term debt levels of PLDT and Smart increased by 19% and 45% to Php94,124 million and Php61,864 million, respectively, while DMPI's long-term debt level decreased by 43% to Php4,904 million, as compared with December 31, 2014.

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

*Debt Covenants*

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

As at December 31, 2016 and 2015, we are in compliance with all of our debt covenants.

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

*Financing Requirements*

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months; however, we may finance a portion of these costs from external sources if we consider it prudent to do so.

The following table shows the dividends declared to shareholders from the earnings for the years ended December 31, 2016 and 2015:

| | Date | | | Amount | |
|---|---|---|---|---|---|
| Earnings | Approved | Record | Payable | Per share | Total Declared |
| | | | | (in millions, except per share amount) | |
| 2016 | | | | | |
| Common | | | | | |
| Regular Dividend | August 2, 2016 | August 16, 2016 | September 1, 2016 | Php49.00 | Php10,587 |
| | March 7, 2017 | March 21, 2017 | April 6, 2017 | 28.00 | 6,050 |
| Preferred | | | | | |
| Series IV Cumulative Non-convertible Redeemable Preferred Stock(1) | January 26, 2016 | February 24, 2016 | March 15, 2016 | – | 12 |
| | May 3, 2016 | May 24, 2016 | June 15, 2016 | – | 12 |
| | August 2, 2016 | August 18, 2016 | September 15, 2016 | – | 12 |
| | November 14, 2016 | November 28, 2016 | December 15, 2016 | – | 12 |
| Voting Preferred Stock | February 29, 2016 | March 30, 2016 | April 15, 2016 | – | 3 |
| | June 14, 2016 | June 30, 2016 | July 15, 2016 | – | 3 |
| | August 30, 2016 | September 20, 2016 | October 15, 2016 | – | 2 |
| | December 6, 2016 | December 20, 2016 | January 15, 2017 | – | 3 |
| Charged to Retained Earnings | | | | | Php16,696 |
| 2015 | | | | | |
| Common | | | | | |
| Regular Dividend | August 4, 2015 | August 27, 2015 | September 25, 2015(2) | Php65.00 | Php14,044 |
| | February 29, 2016 | March 14, 2016 | April 1, 2016 | 57.00 | 12,315 |
| Preferred | | | | | |
| 10% Cumulative Convertible Preferred Stock | May 5, 2015 | May 19, 2015 | May 30, 2015 | 1.00 | – |
| Series IV Cumulative Non-convertible Redeemable Preferred Stock(1) | January 27, 2015 | February 26, 2015 | March 15, 2015 | – | 12 |
| | May 5, 2015 | May 26, 2015 | June 15, 2015 | – | 12 |
| | August 4, 2015 | August 20, 2015 | September 15, 2015 | – | 13 |
| | November 3, 2015 | November 20, 2015 | December 15, 2015 | – | 12 |
| Voting Preferred Stock | March 3, 2015 | March 19, 2015 | April 15, 2015 | – | 2 |
| | June 9, 2015 | June 26, 2015 | July 15, 2015 | – | 3 |
| | August 25, 2015 | September 15, 2015 | October 15, 2015 | – | 2 |
| | December 1, 2015 | December 18, 2015 | January 15, 2016 | – | 3 |
| Charged to Retained Earnings | | | | | Php26,418 |

(1) *Dividends were declared based on total amount paid up.*
(2) *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015, declaring September 25, 2015 a regular holiday.*

See Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters – Dividends" and *Note 20 – Equity* to the accompanying audited consolidated financial statements for a detailed discussion of our dividend payments.

### *Credit Ratings*

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

PLDT's current credit ratings are as follows:

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

On May 20, 2016, Moody's affirmed PLDT's foreign currency bond rating and local currency issuer rating at "Baa2". Both ratings are considered "investment grade." The outlook in both ratings is stable.

On June 1, 2016, S&P affirmed our long-term foreign issuer credit rating at "BBB+", with a stable outlook. This rating is considered as "investment grade." On the S&P Asean regional scale, PLDT's rating affirmed at "axA+".

On August 31, 2016, Fitch affirmed PLDT's long-term foreign currency issuer default rating and senior notes at "BBB" and its National Rating at "AAA (phl)", both with a stable outlook. Fitch also affirmed PLDT's long-term local currency issuer default rating at "BBB+" but with a revised outlook to negative. The ratings reflect PLDT's market leadership position in the Philippine telecommunications industry across the wireless, fixed line and broadband segments.

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

### Off-Balance Sheet Arrangements

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

### Equity Financing

On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In 2016, in view of our elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share and the resources required to support the acquisition of SMC's telecommunications business, we have lowered our regular dividend payout to 60% of our core income. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core earnings for 2015 and 60% of our core earnings in 2016. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, 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 subsidiaries of PLDT may, at any time, declare and pay such dividends depending upon the results of operations and future projects and plans, the respective subsidiary's earnings, cash flow, financial condition, capital investment requirements and other factors.

Consolidated cash dividend payments paid to shareholders amounted to Php22,987 million, Php32,532 million and Php39,900 million as at December 31, 2016, 2015 and 2014, respectively.

### *Market Information*

*Common Capital Stock and ADSs*

The shares of common stock of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT's ADR facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

The public ownership level of PLDT common shares listed on the PSE as at January 31, 2017 is 53.81%.

As at January 31, 2017, 10,267 stockholders were Philippine persons and held approximately 52.32% of PLDT's common capital stock. In addition, as at January 31, 2017, there were a total of approximately 40 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 272 holders.

For the period from January 1 to 31, 2017, a total of 2.62 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 2.44 million ADSs on the NYSE.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2016 and 2015 and for the first two months of 2017 were as follows:

| | Philippine Stock Exchange | | New York Stock Exchange | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 2017 | | | | |
| First Quarter | Php1,618.00 | Php1,360.00 | US$31.98 | US$27.60 |
| January | 1,618.00 | 1,360.00 | 31.98 | 27.65 |
| February | 1,535.00 | 1,386.00 | 30.46 | 27.60 |
| March (March 1 to 23, 2017) | 1,599.00 | 1,400.00 | 31.61 | 27.71 |
| **2016** | | | | |
| **First Quarter** | 2,360.00 | 1,675.00 | 50.48 | 35.52 |
| **Second Quarter** | 2,150.00 | 1,621.00 | 45.88 | 34.26 |
| **Third Quarter** | 2,170.00 | 1,666.00 | 46.13 | 34.64 |
| **Fourth Quarter** | 1,740.00 | 1,260.00 | 36.11 | 25.50 |
| 2015 | | | | |
| First Quarter | 3,214.00 | 2,780.00 | 72.93 | 60.95 |
| Second Quarter | 2,984.00 | 2,748.00 | 66.48 | 61.21 |
| Third Quarter | 2,950.00 | 2,168.00 | 68.00 | 45.46 |
| Fourth Quarter | 2,430.00 | 1,959.00 | 50.86 | 39.70 |

### *Holders*

As at January 31, 2017, there were 11,770 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

| | Name of Holder of Record | Nationality | Number of Shares Held | Amount of Holding | Approximate % to Total Outstanding Common Stock |
|---|---|---|---|---|---|
| 1. | PCD Nominee Corporation | Various – Foreign | 30,321,765 | Php151,608,825 | |
| | | Various – Filipino | 36,260,598 | 181,302,990 | 30.56 |
| 2. | J. P. Morgan Hong Kong Nominees Limited | Chinese | 36,567,542 | 182,837,710 | 17.13 |
| 3. | Philippine Telecommunications Investment Corporation | Filipino | 26,034,263 | 130,171,315 | 12.05 |
| 4. | NTT DOCOMO, Inc. | Japanese | 22,796,902 | 113,984,510 | 10.55 |
| 5. | Metro Pacific Resources, Inc. | Filipino | 21,556,676 | 107,783,380 | 9.98 |
| 6. | JG Summit Holdings, Inc. | Filipino | 17,208,753 | 86,043,765 | 7.96 |
| 7. | NTT Communications Corporation | Japanese | 12,633,487 | 63,167,435 | 5.85 |
| 8. | Social Security System, or SSS | Filipino | 8,338,378 | 41,691,890 | 3.86 |
| 9. | Pan-Malayan Management & Inv Corp. | Filipino | 640,000 | 3,200,000 | 0.30 |
| 10. | Malayan Insurance Co., Inc. | Filipino | 253,000 | 1,265,000 | 0.12 |
| 11. | Manuel V. Pangilinan | Filipino | 249,450 | 1,247,250 | 0.11 |
| 12. | Alfonso T. Yuchengco | Filipino | 118,458 | 592,290 | 0.05 |
| 13. | Albert F. &/or Margaret Gretchen V. del Rosario | Filipino | 106,780 | 533,900 | 0.05 |
| 14. | Edward A. Tortorici &/or Anita R. Tortorici | American | 96,874 | 484,370 | 0.04 |
| 15. | Express Holdings, Inc. | Filipino | 86,723 | 433,615 | 0.04 |
| 16. | Enrique T. Yuchengco, Inc. | Filipino | 59,868 | 299,340 | 0.03 |
| 17. | James L. Go | Filipino | 57,914 | 289,570 | 0.03 |
| 18. | Mechatrends Contractors Corporation | Filipino | 50,000 | 250,000 | 0.02 |
| 19. | JDC Investment Realty Enterprises, Inc. | Filipino | 47,708 | 238,540 | 0.02 |
| 20. | Hare & Company | American | 34,511 | 172,555 | 0.02 |
| | | | 213,519,650 | Php1,067,598,250 | |

### *Recent Sale of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction*

On June 8, 2015, 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock were issued in a transaction exempt from the registration requirement under Section 6 of the Revised Securities Act/Section 10 of the SRC. See *Note 20 – Equity* to the accompanying audited consolidated financial statements for further discussion.

### Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2014, 2015 and 2016:

| | Date | | | Amount | |
|---|---|---|---|---|---|
| Earnings | Approved | Record | Payable | Per share | Total Declared |
| | | | | | (in millions) |
| 2014 | August 5, 2014 | August 28, 2014 | September 26, 2014 | 69 | 14,908 |
| 2014 | March 3, 2015 | March 17, 2015 | April 16, 2015 | 61 | 13,179 |
| 2014 | March 3, 2015 | March 17, 2015 | April 16, 2015 | 26 | 5,618 |
| | | | | 156 | 33,705 |
| 2015 | August 4, 2015 | August 27, 2015 | September 25, 2015[(1)] | 65 | 14,044 |
| 2015 | February 29, 2016 | March 14, 2016 | April 1, 2016 | 57 | 12,315 |
| | | | | 122 | 26,359 |
| **2016** | **August 2, 2016** | **August 16, 2016** | **September 1, 2016** | **49** | **10,587** |
| **2016** | **March 7, 2017** | **March 21, 2017** | **April 6, 2017** | **28** | **6,050** |
| | | | | **Php77** | **Php16,637** |

(1) *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015 declaring September 25, 2015 as a regular holiday.*

### Contractual Obligations and Commercial Commitments

*Contractual Obligations*

See Item 11. "Quantitative and Qualitative Disclosures About Market Risks – Liquidity Risk" for a table summarizing the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2016 and 2015.

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2016 and 2015, see *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

*Commercial Commitments*

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php6,788 million and Php46 million as at December 31, 2016 and 2015, respectively. These commitments will expire within one year. The amount in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare as at December 31, 2016.

**Quantitative and Qualitative Disclosures about Market Risks**

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. We also monitor the market price risk arising from all financial instruments.

See *Note 28 – Financial Assets and Liabilities – Financial Risk Management Objectives and Policies* to the accompanying consolidated financial statements for a detailed discussion.

**Impact of Inflation and Changing Prices**

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2016 and 2015 were 1.8% and 1.4%, respectively. Moving forward, we currently expect inflation to rise following the impact of peso depreciation on oil prices.

**Information on Independent Auditors and Other Related Matters**

***Independent Auditors' Fees and Services***

The following table summarizes the fees paid or accrued for services rendered by SGV & Co., our independent auditors for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| | (in millions) | |
| Audit Fees | **Php43** | Php42 |
| All Other Fees | **23** | 18 |
| Total | **Php66** | Php60 |

*Audit Fees*. This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years..

*Audit-Related Fees.* Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2016 and 2015.

*Tax Fees.* We did not have any tax fees for the years ended December 31, 2016 and 2015.

*All Other Fees*. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2016 and 2015, and other non-audit engagements.

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

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

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

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