SEC Number **PW-55**
File Number ______

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

September 30, 2014

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

November 4, 2014

SECURITIES & EXCHANGE COMMISSION
SEC Building, EDSA
Mandaluyong City

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

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2014.

Very truly yours,

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG. MAKATI AVE. MAKATI CITY

(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL-REVILLA

Contact Person

816-8534

Company Telephone Number

1	2	3	1

Month Day
Fiscal Year

SEC FORM 17-Q

FORM TYPE

0	6

Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

11,895
As of September 30, 2014

Total No. of Stockholders

Total Amount of Borrowings

N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE ("SRC") AND
SRC 17 (2) (b) THEREUNDER**

1. For the quarterly period ended <u>September 30, 2014</u>

2. SEC Identification Number <u>PW-55</u> 3. BIR Tax Identification No. <u>000-488-793</u>

4. <u>Philippine Long Distance Telephone Company</u>
Exact name of registrant as specified in its charter

5. <u>Republic of the Philippines</u>
Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. <u>Ramon Cojuangco Building, Makati Avenue, Makati City</u> <u>0721</u>
Address of registrant's principal office Postal Code

8. <u>(632) 816-8556</u>
Registrant's telephone number, including area code

9. <u>Not Applicable</u>
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	216,055,775 shares as at September 30, 2014

11. Are any or all of these securities listed on the Philippine Stock Exchange?

    Yes [X] No [ ]

12. Check whether the registrant

    (a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

    Yes [X] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [X] No [ ]

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at September 30, 2014 (unaudited) and December 31, 2013 (audited) and for the nine months ended September 30, 2014 and 2013 (unaudited) and related notes (pages F-1 to F-175) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php44.88 to US$1.00, the volume weighted average exchange rate as at September 30, 2014 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, actual results may differ materially from any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

	Nine Months ended September 30,		Increase (Decrease)	
	2014	2013	Amount	%
(in millions, except for EBITDA margin, earnings per common share, net debt to equity ratio and operational data)				
Revenues	Php127,270	Php124,585	Php2,685	2
Expenses	93,506	89,218	4,288	5
Other income (expenses)	2,939	(2,170)	5,109	(235)
Income before income tax	36,703	33,197	3,506	11
Net income for the period	27,937	28,995	(1,058)	(4)
Continuing operations	*27,937*	*26,926*	*1,011*	*4*
Discontinued operations	–	*2,069*	*(2,069)*	*(100)*
Core income	28,561	28,786	(225)	(1)
Continuing operations	*28,561*	*28,885*	*(324)*	*(1)*
Discontinued operations	–	*(99)*	*99*	*(100)*
EBITDA	56,751	59,552	(2,801)	(5)
EBITDA margin(1)	46%	49%	-	-
Reported earnings per common share:				
Basic	129.19	133.81	(4.62)	(3)
Diluted	129.19	133.81	(4.62)	(3)
Core earnings per common share(2):				
Basic	131.99	133.03	(1.04)	(1)
Diluted	131.99	133.03	(1.04)	(1)

	September 30,	December 31,	Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php416,137	Php399,638	Php16,499	4
Property, plant and equipment – net	186,988	192,665	(5,677)	(3)
Cash and cash equivalents and short-term investments	24,334	32,623	(8,289)	(25)
Total equity attributable to equity holders of PLDT	122,427	137,147	(14,720)	(11)
Notes payable and long-term debt, including current portion	132,702	104,090	28,612	27
Net debt(3) to equity ratio	0.89x	0.52x	–	–

	Nine Months ended September 30,		Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php46,573	Php51,605	(Php5,032)	(10)
Net cash used in investing activities	(36,589)	(8,001)	(28,588)	357
Capital expenditures	*15,981*	*14,888*	*1,093*	*7*
Net cash used in financing activities	(18,517)	(52,652)	34,135	(65)
Operational Data				
Number of cellular subscribers	69,030,744	72,498,270	(3,467,526)	(5)
Number of fixed line subscribers	2,184,865	2,073,831	111,034	5
Number of broadband subscribers:	3,746,309	3,328,369	417,940	13
Fixed Line	*1,051,469*	*949,762*	*101,707*	*11*
Wireless	*2,694,840*	*2,378,607*	*316,233*	*13*
Number of employees:	17,399	18,135	(736)	(4)
Fixed Line	*9,724*	*9,892*	(168)	*(2)*
LEC	*7,515*	*7,151*	364	*5*
Others	*2,209*	*2,741*	(532)	*(19)*
Wireless	*7,675*	*8,243*	(568)	*(7)*

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

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

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

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
September 30, 2014	Php44.88	Php44.26
December 31, 2013	44.40	42.44
September 30, 2013	43.54	42.06
December 31, 2012	41.08	42.24

Performance Indicators

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

EBITDA

EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Core Income

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

Overview

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

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

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

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

As at September 30, 2014, our chief operating decision maker, or our Management Committee, views our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which was completed in April 2013. Consequently, the results of operations of our BPO business in the first nine months of 2013 were presented as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies* to the accompanying unaudited consolidated financial statements for further discussion.

Management's Financial Review

In addition to consolidated net income, we use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the nine months ended September 30, 2014 and 2013 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2014 and 2013:

	2014	2013
	(in millions)	
EBITDA from continuing operations	Php56,751	Php59,552
Add (deduct) adjustments to continuing operations:		
Other income	4,268	1,599
Equity share in net earnings of associates and joint ventures	2,687	2,308
Interest income	567	680
Gains on derivative financial instruments – net	13	492
Retroactive effect of adoption of Revised PAS 19[1]	–	(1,269)
Asset impairment	(228)	–
Foreign exchange losses – net	(741)	(2,004)
Amortization of intangible assets	(862)	(736)
Financing costs – net	(3,855)	(5,245)
Provision for income tax	(8,766)	(6,271)
Depreciation and amortization	(21,897)	(22,180)
Total adjustments	(28,814)	(32,626)
Net income from continuing operations	27,937	26,926
Net income from discontinued operations	–	2,069
Consolidated net income	Php27,937	Php28,995

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

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the nine months ended September 30, 2014 and 2013:

	2014	2013
	(in millions)	
Core income from continuing operations	Php28,561	Php28,885
Core income from discontinued operations	–	(99)
Consolidated core income	28,561	28,786
Add (deduct) adjustments to continuing operations:		
Foreign exchange losses – net	(741)	(2,004)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	(24)	32
Gains on derivative financial instruments – net, excluding hedge cost	244	719
Net income (loss) attributable to noncontrolling interests	(20)	41
Retroactive effect of adoption of Revised PAS 19[1]	–	(1,269)
Asset impairment	(228)	–
Net tax effect of aforementioned adjustments	145	522
Total adjustments	(624)	(1,959)
Adjustment to discontinued operations	–	2,168
Net income from continuing operations	27,937	26,926
Net income from discontinued operations	–	2,069
Consolidated net income	Php27,937	Php28,995

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

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income/segment profit, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2014 and 2013. In each of the nine months ended September 30, 2014 and 2013, we generated majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in millions)		
For the nine months ended September 30, 2014					
Revenues	Php88,619	Php50,036	Php–	(Php11,385)	Php127,270
Expenses	63,704	41,398	56	(11,652)	93,506
Other income (expenses)	(647)	(512)	4,365	(267)	2,939
Income before income tax	24,268	8,126	4,309	–	36,703
Provision for income tax	6,431	2,258	77	–	8,766
Net income/Segment profit	17,837	5,868	4,232	–	27,937
EBITDA	37,636	18,904	(56)	267	56,751
EBITDA margin[1]	44%	39%	–	(2%)	46%
Core income from continuing operations	18,349	5,925	4,287	–	28,561
For the nine months ended September 30, 2013					
Revenues	88,232	47,180	–	(10,827)	124,585
Expenses	60,598	39,887	4	(11,271)	89,218
Other income (expenses)	(3,686)	(1,081)	2,895	(298)	(2,170)
Income before income tax	23,948	6,212	2,891	146	33,197
Provision for (benefit from) income tax	6,277	(81)	75	–	6,271
Net income/Segment profit	17,671	6,293	2,816	146	28,995
Continuing operations	17,671	6,293	2,816	146	26,926
Discontinued operations	–	–	–	–	2,069
EBITDA from continuing operations	41,152	17,960	(4)	444	59,552
EBITDA margin[1]	48%	39%	–	(4%)	49%
Core income	19,236	7,005	2,498	146	28,786
Continuing operations	19,236	7,005	2,498	146	28,885
Discontinued operations	–	–	–	–	(99)
Increase (Decrease)					
Revenues	387	2,856	–	(558)	2,685
Expenses	3,106	1,511	52	(381)	4,288
Other income (expenses)	3,039	569	1,470	31	5,109
Income before income tax	320	1,914	1,418	(146)	3,506
Provision for income tax	154	2,339	2	–	2,495
Net income/Segment profit	166	(425)	1,416	(146)	(1,058)
Continuing operations	166	(425)	1,416	(146)	1,011
Discontinued operations	–	–	–	–	(2,069)
EBITDA	(3,516)	944	(52)	(177)	(2,801)
Core income	(887)	(1,080)	1,789	(146)	(225)
Continuing operations	(887)	(1,080)	1,789	(146)	(324)
Discontinued operations	–	–	–	–	99

[1] *EBITDA margin for the month is measured as EBITDA from continuing operations divided by service revenues.*

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php127,270 million in the first nine months of 2014, an increase of Php2,685 million, or 2%, as compared with Php124,585 million in the same period in 2013, primarily due to higher revenues from data and other network, local exchange and miscellaneous services from our fixed line business, and higher wireless broadband revenues, as well as an increase in our non-service revenues, partially offset by lower revenues from national and international long distance services from our fixed line business, and lower cellular services and satellite and other services from our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the nine months ended September 30, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php88,619	70	Php88,232	71	Php387	–
Fixed line	50,036	39	47,180	38	2,856	6
Inter-segment transactions	(11,385)	(9)	(10,827)	(9)	(558)	5
Consolidated	Php127,270	100	Php124,585	100	Php2,685	2

Expenses

Consolidated expenses increased by Php4,288 million, or 5%, to Php93,506 million in the first nine months of 2014 from Php89,218 million in the same period in 2013, as a result of higher expenses related to cost of sales, repairs and maintenance, selling and promotions, rent, professional and other contracted services, communication, training and travel, amortization of intangible assets, and insurance and security, partially offset by lower expenses related to compensation and employee benefits, as a result of the retroactive effect of the application of the Revised PAS 19 on our manpower rightsizing program, or MRP, costs of Php1,269 million for the nine months ended September 30, 2013, asset impairment, depreciation and amortization, taxes and licenses, interconnection costs and other operating expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the nine months ended September 30, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php63,704	68	Php60,598	68	Php3,106	5
Fixed line	41,398	44	39,887	45	1,511	4
Others	56	–	4	–	52	1,300
Inter-segment transactions	(11,652)	(12)	(11,271)	(13)	(381)	3
Consolidated	Php93,506	100	Php89,218	100	Php4,288	5

Other Income (Expenses)

Consolidated other income amounted to Php2,939 million in the first nine months of 2014, a change of Php5,109 million, or 235%, as against other expenses of Php2,170 million in the same period in 2013, primarily due to the combined effects of the following: (i) an increase in other income by Php2,669 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares, gain on fair value adjustment on investment property, gain on purchase price adjustment in relation with the acquisition of Digitel, higher income from consultancy and an increase in rental income, partly offset by the gain on sale of Philweb shares in 2013; (ii) a decrease in net financing costs by Php1,390 million mainly due to decreases on accretion on financial liabilities, financing charges and average interest rates on loans, partly offset by lower capitalized interest and a higher outstanding debt balance; (iii) a decrease in foreign exchange losses by Php1,263 million mainly due to narrower dollar and peso interest rate differentials and lower level of depreciation of the Philippine peso to the U.S. dollar; (iv) an increase in the equity share in net earnings of associates by Php379 million; (v) lower interest income by Php113 million due to lower weighted average peso interest rates, partly offset by higher principal amounts of peso and dollar placements and the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar; and (vi) lower gains on derivative financial instruments due to narrower dollar and peso interest rate differentials and losses on matured Euro/U.S. dollar forward purchase contracts due to the appreciation of the U.S. dollar relative to the Euro and on matured U.S. dollar/Philippine peso forward purchase contracts in the second quarter of 2014 due to the appreciation of the Philippine peso relative to the U.S. dollar.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the nine months ended September 30, 2014 and 2013:

	2014	2013	Change Amount	Change %
		(in millions)		
Wireless	(Php647)	(Php3,686)	Php3,039	(82)
Fixed line	(512)	(1,081)	569	(53)
Others	4,365	2,895	1,470	51
Inter-segment transactions	(267)	(298)	31	(10)
Consolidated	Php2,939	(Php2,170)	Php5,109	(235)

Net Income

Consolidated net income decreased by Php1,058 million, or 4%, to Php27,937 million in the first nine months of 2014, from Php28,995 million, including net income from discontinued operations of Php2,069 million, in the same period in 2013. The decrease was mainly due to the combined effects of the following: (i) an increase in consolidated expenses by Php4,288 million; (ii) an increase in consolidated provision for income tax by Php2,495 million, which was mainly due to higher taxable income across our businesses; (iii) income from discontinued operations of Php2,069 million in 2013; (iv) an increase in consolidated revenues by Php2,685 million; and (v) an increase in consolidated other income – net by Php5,109 million. Our consolidated basic and diluted EPS decreased to Php129.19 in the first nine months of 2014 from consolidated basic and diluted EPS of Php133.81 in the same period in 2013. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the first nine months of 2014 and 2013.

The following table shows the breakdown of our consolidated net income by business segment for the nine months ended September 30, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php17,837	64	Php17,671	61	Php166	1
Fixed line	5,868	21	6,293	22	(425)	(7)
Others	4,232	15	2,816	10	1,416	50
Inter-segment transactions	–	–	146	–	(146)	(100)
Continuing operations	27,937	100	26,926	93	1,011	4
Discontinued operations	–	–	2,069	7	(2,069)	(100)
Consolidated	Php27,937	100	Php28,995	100	(Php1,058)	(4)

EBITDA

Our consolidated EBITDA amounted to Php56,751 million in the first nine months of 2014, a decrease of Php2,801 million, or 5%, as compared with Php59,552 million in the same period in 2013, primarily due to higher cost of sales and operating expenses driven by repairs and maintenance costs, selling and promotions, compensation and employee benefits, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php1,269 million for the nine months ended September 30, 2013, rent, and professional and other contracted services, partially offset by higher consolidated revenues, and lower taxes and licenses, and provision for doubtful accounts.

The following table shows the breakdown of our consolidated EBITDA from continuing operations by business segment for the nine months ended September 30, 2014 and 2013:

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php37,636	66	Php41,152	69	(Php3,516)	(9)
Fixed line	18,904	33	17,960	30	944	5
Others	(56)	–	(4)	–	(52)	1,300
Inter-segment transactions	267	1	444	1	(177)	(40)
Continuing operations	Php56,751	100	Php59,552	100	(Php2,801)	(5)

Core Income

Our consolidated core income amounted to Php28,561 million in the first nine months of 2014, a decrease of Php225 million, or 1%, as compared with Php28,786 million, including negative core income from discontinued operations of Php99 million, in the same period in 2013, primarily due to higher other income and consolidated revenues, partially offset by higher consolidated expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php1,269 million for the nine months ended September 30, 2013, and higher provision for income tax. Our consolidated basic and diluted core EPS, decreased to Php131.99 in the first nine months of 2014 from Php133.03 in the same period in 2013.

The following table shows the breakdown of our consolidated core income by business segment for the nine months ended September 30, 2014 and 2013:

					Change	
	2014	%	2013	%	Amount	%
			(in millions)			
Wireless	Php18,349	64	Php19,236	67	(Php887)	(5)
Fixed line	5,925	21	7,005	24	(1,080)	(15)
Others	4,287	15	2,498	9	1,789	72
Inter-segment transactions	–	–	146	–	(146)	(100)
Continuing operations	28,561	100	28,885	100	(324)	(1)
Discontinued operations	–	–	(99)	–	99	(100)
Consolidated	Php28,561	100	Php28,786	100	(Php225)	(1)

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php88,619 million in the first nine months of 2014, an increase of Php387 million from Php88,232 million in the same period in 2013.

The following table summarizes our total revenues from our wireless business for the nine months ended September 30, 2014 and 2013 by service segment:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php77,410	87	Php78,278	89	(Php868)	(1)
Wireless broadband, satellite and others						
Wireless broadband	7,532	9	7,073	8	459	6
Satellite and others	900	1	1,029	1	(129)	(13)
	85,842	97	86,380	98	(538)	(1)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	2,777	3	1,852	2	925	50
Total Wireless Revenues	Php88,619	100	Php88,232	100	Php387	–

Service Revenues

Our wireless service revenues in the first nine months of 2014 decreased by Php538 million, or 1%, to Php85,842 million as compared with Php86,380 million in the same period in 2013, mainly as a result of lower revenues from our cellular services due to lower domestic bucket-priced, standard and international text messaging revenues, and lower satellite and other service revenues, partially offset by higher mobile internet, domestic voice and VAS revenues, as well as the increase in broadband service revenues. Our dollar-linked revenues were affected by the depreciation of the Philippine peso relative to the U.S. dollar, which increased to a weighted average exchange rate of Php44.26 for the nine months ended September 30, 2014 from Php42.06 for the nine months ended September 30, 2013. As a percentage of our total wireless revenues, service revenues accounted for 97% and 98% in the first nine months of 2014 and 2013, respectively.

Cellular Service

Our cellular service revenues in the first nine months of 2014 amounted to Php77,410 million, a decrease of Php868 million, or 1%, from Php78,278 million in the same period in 2013. Cellular service revenues accounted for 90% and 91% of our wireless service revenues in the first nine months of 2014 and 2013, respectively.

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

On September 26, 2014, we have also launched our *Free Mobile internet* promo whereby subscribers can avail of 30MB of data usage per day, excluding video streaming, VoIP and chat applications, free of charge. The promo will run until January 5, 2015.

The following table shows the breakdown of our cellular service revenues for the nine months ended September 30, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Cellular service revenues	Php77,410	Php78,278	(Php868)	(1)
By service type	*75,419*	*76,584*	*(1,165)*	*(2)*
Prepaid	59,575	62,637	(3,062)	(5)
Postpaid	15,844	13,947	1,897	14
By component	*75,419*	*76,584*	*(1,165)*	*(2)*
Voice	38,282	37,789	493	1
Data	37,137	38,795	(1,658)	(4)
Others[(1)]	*1,991*	*1,694*	*297*	*18*

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

The following table shows other key measures of our cellular business as at and for the nine months ended September 30, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
Cellular subscriber base	69,030,744	72,498,270	(3,467,526)	(5)
Prepaid	66,374,421	70,198,270	(3,823,849)	(5)
Smart	*24,735,917*	*23,867,643*	*868,274*	*4*
Talk 'N Text	*27,784,781*	*31,922,834*	*(4,138,053)*	*(13)*
Sun Cellular	*13,853,723*	*14,407,793*	*(554,070)*	*(4)*
Postpaid	2,656,323	2,300,000	356,323	15
Sun Cellular	*1,650,199*	*1,433,840*	*216,359*	*15*
Smart	*1,006,124*	*866,160*	*139,964*	*16*
Systemwide traffic volumes (in million minutes)				
Calls	39,763	41,317	(1,554)	(4)
Domestic	37,469	38,653	(1,184)	(3)
Inbound	*828*	*926*	*(98)*	*(11)*
Outbound	*36,641*	*37,727*	*(1,086)*	*(3)*
International	2,294	2,664	(370)	(14)
Inbound	*2,077*	*2,378*	*(301)*	*(13)*
Outbound	*217*	*286*	*(69)*	*(24)*
SMS/Data count (in million hits)	321,947	382,817	(60,870)	(16)
Text messages	320,507	381,216	(60,709)	(16)
Domestic	319,845	380,564	(60,719)	(16)
Bucket-Priced/Unlimited	296,592	356,724	(60,132)	(17)
Standard	23,253	23,840	(587)	(2)
International	662	652	10	2
Value-Added Services	1,432	1,533	(101)	(7)
Financial Services	8	68	(60)	(88)
Mobile internet (in TB)	27,687	13,030	14,657	112

Revenues generated from our prepaid cellular services amounted to Php59,575 million in the first nine months of 2014, a decrease of Php3,062 million, or 5%, as compared with Php62,637 million in the same period in 2013. Prepaid cellular service revenues accounted for 79% and 82% of cellular voice and data revenues in the first nine months of 2014 and 2013, respectively. Revenues generated from postpaid cellular service amounted to Php15,844 million in the first nine months of 2014, an increase of Php1,897 million, or 14%, as compared with Php13,947 million earned in the same period in 2013, and which accounted for 21% and 18% of cellular voice and data revenues in the first nine months of 2014 and 2013, respectively. The decrease in revenues from our prepaid cellular services was primarily due to lower text messaging and international voice revenues, partially offset by an increase in mobile internet and domestic outbound voice revenues. The increase in our postpaid cellular service revenues was primarily due to a higher subscriber base.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php493 million, or 1%, to Php38,282 million in the first nine months of 2014 from Php37,789 million in the same period in 2013 primarily due to higher domestic voice, partially offset by the decline in international voice revenues. Cellular voice services accounted for 49% and 48% of our cellular service revenues in the first nine months of 2014 and 2013, respectively.

The following table shows the breakdown of our cellular voice revenues for the nine months ended September 30, 2014 and 2013:

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php3,189	Php3,504	(Php315)	(9)
Outbound	24,306	22,419	1,887	8
	27,495	25,923	1,572	6
International				
Inbound	9,362	10,222	(860)	(8)
Outbound	1,425	1,644	(219)	(13)
	10,787	11,866	(1,079)	(9)
Total	Php38,282	Php37,789	Php493	1

Domestic voice service revenues increased by Php1,572 million, or 6%, to Php27,495 million in the first nine months of 2014 from Php25,923 million in the same period in 2013, primarily due to an increase in domestic outbound voice service revenues by Php1,887 million, partially offset by lower domestic inbound voice service revenues by Php315 million.

Revenues from domestic outbound voice service increased by Php1,887 million, or 8%, to Php24,306 million in the first nine months of 2014 from Php22,419 million in the same period in 2013 mainly due to higher revenues on bucket and unlimited voice services, partially offset by the decline in standard voice revenues. Domestic outbound call volumes of 36,641 million minutes decreased by 1,086 million minutes, or 3%, from 37,727 million minutes in the same period in 2013 primarily due to lower unlimited and standard voice traffic, partially offset by higher bucket voice traffic resulting in higher yield for domestic outbound voice service.

Revenues from our domestic inbound voice service decreased by Php315 million, or 9%, to Php3,189 million in the first nine months of 2014 from Php3,504 million in the same period in 2013 due to lower traffic originating from other mobile carriers. Domestic inbound call volumes of 828 million minutes in the first nine months of 2014, decreased by 98 million minutes, or 11%, from 926 million minutes in the same period in 2013.

International voice service revenues decreased by Php1,079 million, or 9%, to Php10,787 million in the first nine months of 2014 from Php11,866 million in the same period in 2013 primarily due to lower international inbound voice service revenues by Php860 million, or 8%, to Php9,362 million in the first nine months of 2014 from Php10,222 million in the same period in 2013, as well as the decline in international outbound voice service revenues by Php219 million, or 13%, to Php1,425 million in the first nine months of 2014 from Php1,644 million in the same period in 2013. The decrease in international voice service revenues was due to lower international voice traffic and average international inbound termination rate in U.S. dollar, partially offset by the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar. International inbound and outbound calls totaled 2,294 million minutes, a decrease of 370 million minutes, or 14%, from 2,664 million minutes in the same period in 2013.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS and mobile internet, decreased by Php1,658 million, or 4%, to Php37,137 million in the first nine months of 2014 from Php38,795 million in the same period in 2013 primarily due to lower text messaging revenues, partially offset by higher mobile internet and VAS revenues. Cellular data services accounted for 48% and 50% of our cellular service revenues in the first nine months of 2014 and 2013, respectively.

The following table shows the breakdown of our cellular data service revenues for the nine months ended September 30, 2014 and 2013:

			Increase (Decrease)	
	2014	**2013**	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php27,739	Php31,522	(Php3,783)	(12)
Bucket-Priced/Unlimited	19,281	22,150	(2,869)	(13)
Standard	8,458	9,372	(914)	(10)
International	2,416	2,618	(202)	(8)
	30,155	34,140	(3,985)	(12)
Mobile internet[1]	5,731	3,388	2,343	69
Value-added services[2]	1,243	1,125	118	10
Financial services	8	142	(134)	(94)
Total	Php37,137	Php38,795	(Php1,658)	(4)

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

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

Text messaging-related services contributed revenues of Php30,155 million in the first nine months of 2014, a decrease of Php3,985 million, or 12%, as compared with Php34,140 million in the same period in 2013, and accounted for 81% and 88% of our total cellular data service revenues in the first nine months of 2014 and 2013, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower bucket-priced/unlimited and standard SMS, as well as lower international text messaging revenues. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php19,281 million in the first nine months of 2014, a decrease of Php2,869 million, or 13%, as compared with Php22,150 million in the same period in 2013. Bucket-priced/unlimited text messages decreased by 60,132 million, or 17%, to 296,592 million in the first nine months of 2014 from 356,724 million in the same period in 2013.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php914 million, or 10%, to Php8,458 million in the first nine months of 2014 from Php9,372 million in the same period in 2013, mainly due to decrease in outbound standard SMS revenues primarily as a result of increased preference for messaging through various mobile applications, social networking sites and other over-the-top, or OTT, services. Standard text messages decreased by 587 million, or 2% to 23,253 million in the first nine months of 2014 from 23,840 million in the same period in 2013.

International text messaging revenues amounted to Php2,416 million in the first nine months of 2014, a decrease of Php202 million, or 8%, from Php2,618 million in the same period in 2013. Despite higher SMS traffic, revenues declined due mainly to lower international SMS rates driven by various promotions launched and enhanced bucket offers, partially offset by the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar.

Mobile internet service revenues increased by Php2,343 million, or 69%, to Php5,731 million in the first nine months of 2014 from Php3,388 million in the same period in 2013 as a result of higher traffic for mobile internet browsing mainly due to widened utilization of mobile applications, social networking sites and other OTT services. Mobile internet service registered 27,687, terabyte, or TB, in the first nine months of 2014, an increase of 14,657 TB, or 112%, from 13,030 TB in the same period in 2013.

VAS contributed revenues of Php1,243 million in the first nine months of 2014, an increase of Php118 million, or 10%, as compared with Php1,125 million in the same period in 2013, primarily due to an increase in revenues from SMS-based VAS revenues, partially offset by lower revenues from MMS-based and *Pasa Load/Give-a-Load* VAS.

Subscriber Base, ARPU and Churn Rates

As at September 30, 2014, our cellular subscribers totaled 69,030,744 a decrease of 3,467,526, or 5%, over the cellular subscriber base of 72,498,270 as at September 30, 2013. Our cellular prepaid subscriber base decreased by 3,823,849, or 5%, to 66,374,421 as at September 30, 2014 from 70,198,270 as at September 30, 2013, while our cellular postpaid subscriber base increased by 356,323, or 15%, to 2,656,323 as at September 30, 2014 from 2,300,000 as at September 30, 2013. The decrease in subscriber base was primarily due to lower *Talk 'N Text* subscribers by 4,138,053, or 13%, and a net decrease in *Sun Cellular* subscribers by 337,711, or 2%, partially offset by a net increase in Smart subscribers by 1,008,238, or 4%. Prepaid subscribers exclude those subscribers whose minimum balance is derived via accumulation from its rewards program. Prepaid subscribers accounted for 96% and 97% of our total subscriber base as at September 30, 2014 and 2013, respectively.

Our net subscriber activations (reductions) for the nine months ended September 30, 2014 and 2013 were as follows:

	2014	2013	Increase (Decrease) Amount	%
Prepaid	(1,293,329)	2,586,733	(3,880,062)	(150)
Smart	*127,230*	*(1,193,810)*	*1,321,040*	*(111)*
Talk 'N Text	*(1,700,236)*	*3,477,781*	*(5,178,017)*	*(149)*
Sun Cellular	*279,677*	*302,762*	*(23,085)*	*(8)*
Postpaid	278,446	45,079	233,367	518
Smart	*116,428*	*182,680*	*(66,252)*	*(36)*
Sun Cellular	*162,018*	*(137,601)*	*299,619*	*(218)*
Total	(1,014,883)	2,631,812	(3,646,695)	(139)

Prepaid subscribers reflected net reductions of 1,293,329 subscribers, while postpaid subscribers reflected net activations of 278,446 subscribers in the first nine months of 2014, as compared with prepaid and postpaid subscribers net activations of 2,586,733 and 45,079 subscribers, respectively, in the same period in 2013.

The following table summarizes our average monthly churn rates for the nine months ended September 30, 2014 and 2013:

	2014	2013
	(in %)	
Prepaid		
Smart	5.7	5.7
Talk 'N Text	6.0	3.8
Sun Cellular	9.7	10.1
Postpaid		
Smart	2.7	2.6
Sun Cellular	1.8	3.7

For *Smart Prepaid* subscribers, the average monthly churn rate in each of the first nine months of 2014 and 2013 was 5.7%, while the average monthly churn rate for *Talk 'N Text* subscribers were 6.0% and 3.8% in the first nine months of 2014 and 2013, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 9.7% and 10.1% in the first nine months of 2014 and 2013, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers for the first nine months of 2014 and 2013 were 2.7% and 2.6% respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 1.8% and 3.7% in the first nine months of 2014 and 2013, respectively.

The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 2014 and 2013:

	Gross[(1)]		Increase (Decrease)		Net[(2)]		Increase (Decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Prepaid								
Smart	Php145	Php160	(Php15)	(9)	Php130	Php141	(Php11)	(8)
Talk 'N Text	97	96	1	1	87	85	2	2
Sun Cellular	73	66	7	11	66	58	8	14
Postpaid								
Smart	1,086	1,149	(63)	(5)	1,076	1,135	(59)	(5)
Sun Cellular	474	479	(5)	(1)	471	475	(4)	(1)

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

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

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

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

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

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

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php459 million, or 6%, to Php7,532 million in the first nine months of 2014 from Php7,073 million in the same period in 2013, primarily due to an increase in prepaid revenues by Php301 million, or 14%, to Php2,387 million in the first nine months of 2014 from Php2,086 million in the same period in 2013, and higher postpaid revenues by Php158 million, or 3%, to Php5,145 million in the first nine months of 2014 from Php4,987 million in the same period in 2013.

The following table shows information of our wireless broadband revenues and subscriber base as at and for the nine months ended September 30, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
Wireless Broadband Revenues (in millions)	Php7,532	Php7,073	Php459	6
Prepaid	2,387	2,086	*301*	*14*
Postpaid	5,145	4,987	158	3
Wireless Broadband Subscribers	2,694,840	2,378,607	316,233	13
Prepaid	*1,852,819*	*1,597,186*	*255,633*	16
Smart	1,560,743	1,294,152	266,591	21
Sun	292,076	303,034	(10,958)	(4)
Postpaid	*842,021*	*781,421*	*60,600*	8
Smart	542,844	549,687	(6,843)	(1)
Sun	299,177	231,734	67,443	29

Smart Broadband and *Sun Broadband Wireless*, SBI's and DMPI's broadband services, respectively, offer a number of wireless broadband services and had a total of 2,694,840 subscribers as at September 30, 2014, a net increase of 316,233 subscribers, or 13%, as compared with 2,378,607 subscribers as at September 30, 2013, primarily due to a net increase in *Smart Broadband* subscribers by 259,748, or 14%, complemented by a net increase in *Sun Broadband* subscribers by 56,485, or 11%, as at September 30, 2014. Our prepaid wireless broadband subscriber base increased by 255,633 subscribers, or 16%, to 1,852,819 subscribers as at September 30, 2014 from 1,597,186 subscribers as at September 30, 2013, while our postpaid wireless broadband subscriber base increased by 60,600 subscribers, or 8%, to 842,021 subscribers as at September 30, 2014 from 781,421 subscribers as at September 30, 2013.

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

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

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php129 million, or 13%, to Php900 million in the first nine months of 2014 from Php1,029 million in the same period in 2013, primarily due to a decrease in the number of ACeS Philippines' subscribers and lower revenue contribution from MVNO of PLDT Global, partially offset by the effect of higher weighted average exchange rate of Php44.26 in the nine months ended September 30, 2014 from Php42.06 for the nine months ended September 30, 2013 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems and accessories. Our wireless non-service revenues increased by Php925 million, or 50%, to Php2,777 million in the first nine months of 2014 from Php1,852 million in the same period in 2013, primarily due to increased availments for broadband *Pocket Wifi,* broadband accessories and computer packages, as well as higher cellular activation and retention packages, partly offset by lower quantity of broadband *Plug-It* modems issued.

Expenses

Expenses associated with our wireless business amounted to Php63,704 million in the first nine months of 2014, an increase of Php3,106 million, or 5%, from Php60,598 million in the same period in 2013. A significant portion of this increase was attributable to higher expenses related to cost of sales, selling and promotions, rent, repairs and maintenance, professional and other contracted services, asset impairment and amortization of intangible assets, partially offset by lower compensation and employee benefits, depreciation and amortization, and taxes and licenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 72% and 69% in the first nine months of 2014 and 2013, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 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	Php11,859	19	Php12,246	20	(Php387)	(3)
Cost of sales	8,656	14	7,369	12	1,287	17
Rent	8,195	13	7,461	12	734	10
Repairs and maintenance	6,488	10	5,911	10	577	10
Selling and promotions	6,436	10	5,447	9	989	18
Interconnection costs	6,107	10	6,073	10	34	1
Compensation and employee benefits	6,068	10	6,662	11	(594)	(9)
Professional and other contracted services	3,352	5	3,054	5	298	10
Asset impairment	1,512	2	1,263	2	249	20
Taxes and licenses	1,388	2	1,737	3	(349)	(20)
Communication, training and travel	1,212	2	1,134	2	78	7
Insurance and security services	913	1	838	2	75	9
Amortization of intangible assets	862	1	735	1	127	17
Other expenses	656	1	668	1	(12)	(2)
Total	Php63,704	100	Php60,598	100	Php3,106	5

Depreciation and amortization charges decreased by Php387 million, or 3%, to Php11,859 million primarily due to a lower depreciable asset base.

Cost of sales increased by Php1,287 million, or 17%, to Php8,656 million primarily due to increased handset and modem issuances for cellular and broadband activation and retention, and higher average cost of cellular handsets/SIM-packs and broadband modems.

Rent expenses increased by Php734 million, or 10%, to Php8,195 million primarily due to an increase in site, office building and leased circuit rental charges. As at September 30, 2014, we have a total of 24,938 cellular/broadband base stations, including 9,946 active 4G/HSPA+/LTE-base stations, as compared with 23,433 cellular/broadband base stations, including 8,421 active 4G/HSPA+/LTE-base stations, as at September 30, 2013.

Repairs and maintenance expenses increased by Php577 million, or 10%, to Php6,488 million mainly due to higher site electricity consumption costs, gas and fuel consumption for site, maintenance costs on cellular and broadband network facilities, as well as higher IT hardware, partially offset by lower maintenance costs on IT software.

Selling and promotion expenses increased by Php989 million, or 18%, to Php6,436 million primarily due to higher costs of events, advertising and commissions expenses.

Interconnection costs increased by Php34 million, or 1%, to Php6,107 million primarily due to an increase in interconnection charges on international SMS and domestic voice services, partially offset by lower interconnection cost on unlimited voice and domestic SMS services.

Compensation and employee benefits expenses decreased by Php594 million, or 9%, to Php6,068 million primarily due to lower MRP costs and salaries and employee benefits, partly offset by higher provision for pension benefits and LTIP costs. Employee headcount decreased to 7,675 as at September 30, 2014 as compared with 8,243 as at September 30, 2013, primarily due to the availment of the MRP by DMPI employees in 2013.

Professional and other contracted service fees increased by Php298 million, or 10%, to Php3,352 million primarily due to an increase in outsourced service, market research, collection agency, payment facility fees and bill printing fees, partly offset by lower consultancy service fees.

Asset impairment increased by Php249 million, or 20%, to Php1,512 million primarily due to higher provision for uncollectible receivables.

Taxes and licenses decreased by Php349 million, or 20%, to Php1,388 million due to lower business-related taxes.

Communication, training and travel expenses increased by Php78 million, or 7%, to Php1,212 million primarily due to higher freight and hauling, fuel consumption costs for vehicles, and mailing and courier charges, partially offset by lower communication charges.

Insurance and security services increased by Php75 million, or 9%, to Php913 million primarily due to higher group health insurance, insurance and bond premiums, and site security expenses, partly offset by lower office security expenses.

Amortization of intangible assets increased by Php127 million, or 17%, to Php862 million primarily due to license fees paid for exclusive partnership and use of music catalogues.

Other expenses decreased by Php12 million, or 2%, to Php656 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 nine months ended September 30, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php152	Php282	(Php130)	(46)
Equity share in net losses of associates	–	(67)	67	(100)
Losses on derivative financial instruments – net	(32)	(16)	(16)	100
Foreign exchange losses – net	(623)	(1,368)	745	(54)
Financing costs – net	(1,219)	(2,622)	1,403	(54)
Others	1,075	105	970	924
Total	(Php647)	(Php3,686)	Php3,039	(82)

Our wireless business' other expenses amounted to Php647 million in the first nine months of 2014, a decrease of Php3,039 million, or 82%, from Php3,686 million in the same period in 2013, primarily due to the combined effects of the following: (i) lower net financing costs by Php1,403 million primarily due to decreases on amortization of debt discount, lower debt issuance cost and lower average interest rates on loans, partly offset by lower capitalized interest and an increase in financing charges; (ii) an increase in other income by Php970 million mainly due to higher income from consultancy, net gain on insurance claims and other miscellaneous income; (iii) lower net foreign exchange losses by Php745 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; (iv) equity share in net losses of associates of Php67 million in the first nine months of 2013; (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 Php130 million mainly due to lower cash levels and lower weighted average peso and dollar interest rates on account of low interest rate environment.

Provision for Income Tax

Provision for income tax increased by Php154 million, or 2%, to Php6,431 million in the first nine months of 2014 from Php6,277 million in the same period in 2013 primarily due to higher taxable income. The effective tax rates for our wireless business was 26% in each of the first nine months of 2014 and 2013.

Net Income

As a result of the foregoing, our wireless business' net income increased by Php166 million, or 1%, to Php17,837 million in the first nine months of 2014 from Php17,671 million recorded in the same period in 2013.

EBITDA

Our wireless business' EBITDA decreased by Php3,516 million, or 9%, to Php37,636 million in the first nine months of 2014 from Php41,152 million in the same period in 2013.

Core Income

Our wireless business' core income decreased by Php887 million, or 5%, to Php18,349 million in the first nine months of 2014 from Php19,236 million in the same period in 2013 on account of higher wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 of Php537 million in our MRP costs in 2013, and higher provision for income tax, partially offset by a decrease in other expenses and an increase in wireless revenues.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php50,036 million in the first nine months of 2014, an increase of Php2,856 million, or 6%, from Php47,180 million in the same period in 2013.

The following table summarizes our total revenues from our fixed line business for the nine months ended September 30, 2014 and 2013 by service segment:

					Increase (Decrease)	
	2014	**%**	**2013**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Local exchange	Php12,374	25	Php12,194	26	Php180	1
International long distance	8,398	17	8,448	18	(50)	(1)
National long distance	3,327	7	3,481	7	(154)	(4)
Data and other network	22,545	45	20,338	43	2,207	11
Miscellaneous	1,808	3	1,529	3	279	18
	48,452	97	45,990	97	2,462	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,584	3	1,190	3	394	33
Total Fixed Line Revenues	Php50,036	100	Php47,180	100	Php2,856	6

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php2,462 million, or 5%, to Php48,452 million in the first nine months of 2014 from Php45,990 million in the same period in 2013 due to an increase in revenues of our data and other network, miscellaneous and local exchange services, partially offset by decreases in national and international long distance services.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the nine months ended September 30, 2014 and 2013:

	2014	2013	Increase Amount	%
Total local exchange service revenues (in millions)	Php12,374	Php12,194	Php180	1
Number of fixed line subscribers	2,184,865	2,073,831	111,034	5
Postpaid	2,125,213	2,015,007	110,206	5
Prepaid	59,652	58,824	828	1
Number of fixed line employees	7,515	7,151	364	5
Number of fixed line subscribers per employee	291	290	1	–

Revenues from our local exchange service increased by Php180 million, or 1%, to Php12,374 million in the first nine months of 2014 from Php12,194 million in the same period in 2013, primarily due to higher weighted average billed lines, partially offset by lower installation and activation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues were 26% and 27% in the first nine months of 2014 and 2013, respectively.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the nine months ended September 30, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php8,398	Php8,448	(Php50)	(1)
Inbound	7,518	7,442	76	1
Outbound	880	1,006	(126)	(13)
International call volumes (in million minutes, except call ratio)	1,526	1,639	(113)	(7)
Inbound	1,304	1,343	(39)	(3)
Outbound	222	296	(74)	(25)
Inbound-outbound call ratio	5.9:1	4.5:1	–	–

Our total international long distance service revenues decreased by Php50 million, or 1%, to Php8,398 million in the first nine months of 2014 from Php8,448 million in the same period in 2013, primarily due to lower call volumes and a decrease in average settlement rate in dollar terms, partially offset by the increase in average billing rate in dollar terms, as well as the favorable effect of higher weighted average exchange rate of the Philippine peso to the U.S. dollar to Php44.26 for the nine months ended September 30, 2014 from Php42.06 for the nine months ended September 30, 2013. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 17% and 18% in the first nine months of 2014 and 2013, respectively.

Our revenues from inbound international long distance service increased by Php76 million, or 1%, to Php7,518 million in the first nine months of 2014 from Php7,442 million in the same period in 2013 primarily due to the favorable effect on our inbound revenues of a higher weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by the decrease in average settlement rate in dollar terms and the decrease in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php126 million, or 13%, to Php880 million in the first nine months of 2014 from Php1,006 million in the same period in 2013, primarily due to the decrease in call volumes, partially offset by the increase in the average billing rate in dollar terms and an increase in the exchange rate of the U.S. dollar to Philippine peso.

Our total international long distance service revenues, net of interconnection costs, decreased by Php259 million, or 8%, to Php3,158 million in the first nine months of 2014 from Php3,417 million in the same period in 2013. The decrease was primarily due to the net effect of lower international inbound service revenues as a result of a decrease in the average settlement rate in dollar terms, lower inbound call volumes, and the net effect of lower international outbound service revenues as a result of lower call volumes, partially offset by the favorable effect of the increase in the average billing rate in dollar terms and the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2014 and 2013:

	2014	2013	Decrease Amount	%
Total national long distance service revenues (in millions)	Php3,327	Php3,481	(Php154)	(4)
National long distance call volumes (in million minutes)	624	644	(20)	(3)

Our national long distance service revenues decreased by Php154 million, or 4%, to Php3,327 million in the first nine months of 2014 from Php3,481 million in the same period in 2013, primarily due to a decrease in call volumes, partially offset by higher average revenue per minute of our national long distance services as a result of higher calls terminating to cellular mobile subscribers. The percentage contribution of national long distance revenues to our fixed line service revenues were 7% and 8% for the first nine months of 2014 and 2013, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Php89 million, or 3%, to Php2,610 million in the first nine months of 2014 from Php2,699 million in the same period in 2013, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the nine months ended September 30, 2014 and 2013:

	2014	2013	Increase Amount	%
Data and other network service revenues (in millions)	Php22,545	Php20,338	Php2,207	11
Domestic	16,114	14,817	1,297	9
Broadband	*10,197*	*9,067*	*1,130*	*12*
Leased Lines and Others	*5,917*	*5,750*	*167*	*3*
International				
Leased Lines and Others	*4,896*	*4,247*	*649*	*15*
Data Centers	1,535	1,274	261	20
Subscriber base				
Broadband	*1,051,469*	*949,762*	*101,707*	*11*
SWUP	*34,702*	*28,339*	*6,363*	*22*

Our data and other network services posted revenues of Php22,545 million in the first nine months of 2014, an increase of Php2,207 million, or 11%, from Php20,338 million in the same period in 2013, primarily due to higher revenues from DSL, *Fibr,* and *Shops.Work*, international data revenues primarily from i-Gate and Fibernet, data centers, and Diginet revenues. The percentage contribution of this service segment to our fixed line service revenues was 46% and 44% in the first nine months of 2014 and 2013, respectively.

Domestic

Domestic data services contributed Php16,114 million in the first nine months of 2014, an increase of Php1,297 million, or 9%, as compared with Php14,817 million in the same period in 2013 mainly due to higher DSL and *Fibr* revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and higher demand for offshoring and outsourcing services. The percentage contribution of domestic data service revenues to total data and other network services were 71% and 73% in the first nine months of 2014 and 2013, respectively.

Broadband

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *Fibr*, our most advanced broadband internet connection, which is intended for individual internet users.

Broadband data revenues amounted to Php10,197 million in the first nine months of 2014, an increase of Php1,130 million, or 12%, from Php9,067 million in the same period in 2013 as a result of the increase in the number of subscribers by 101,707, or 11%, to 1,051,469 subscribers as at September 30, 2014 from 949,762 subscribers as at September 30, 2013. Broadband revenues accounted for 45% of total data and other network service revenues in each of the first nine months of 2014 and 2013.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at September 30, 2014, *SWUP* had a total subscriber base of 34,702, up by 6,363, or 22%, from 28,339 subscribers as at September 30, 2013. Leased lines and other data revenues amounted to Php5,917 million in the first nine months of 2014, an increase of Php167 million, or 3%, from Php5,750 million in the same period in 2013, primarily due to higher revenues from *Shops.Work,* IP-VPN and Diginet, partially offset by lower internet exchange revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 26% and 28% in the first nine months of 2014 and 2013, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, which provide data networking services to multinational companies. International data service revenues increased by Php649 million, or 15%, to Php4,896 million in the first nine months of 2014 from Php4,247 million in the same period in 2013, primarily due to higher i-Gate and Fibernet revenues, IP-VPN local access services, and an increase in revenues from various global service providers, as well as the favorable effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues were 22% and 21% in the first nine months of 2014 and 2013, respectively.

Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. As at September 30, 2014, ePLDT Group has a total of 2,262 rack capacity in five locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php261 million, or 20%, to Php1,535 million in the first nine months of 2014 from Php1,274 million in the same period in 2013 mainly due to higher revenues from co-location and managed services. The percentage contribution of this service segment to our total data and other network service revenues were 7% and 6% in the first nine months of 2014 and 2013, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees, and directory advertising. These service revenues increased by Php279 million, or 18%, to Php1,808 million in the first nine months of 2014 from Php1,529 million in the same period in 2013 mainly due to higher outsourcing and management fees and co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues were 4% and 3% in the first nine months of 2014 and 2013, respectively.

Non-service Revenues

Non-service revenues increased by Php394 million, or 33%, to Php1,584 million in the first nine months of 2014 from Php1,190 million in the same period 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 and equipment for *PLDT UNO*, a managed unified communications offering, partially offset by lower computer-bundled sales.

Expenses

Expenses related to our fixed line business totaled Php41,398 million in the first nine months of 2014, an increase of Php1,511 million, or 4%, as compared with Php39,887 million in the same period in 2013. The increase was primarily due to higher expenses related to repairs and maintenance, cost of sales, selling and promotions, interconnection costs, professional and other contracted services, taxes and licenses, depreciation and amortization, communication, training and travel, compensation and employee benefits, and insurance and security services, partly offset by lower expenses related to asset impairment, rent, amortization of intangible assets and other expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 83% and 85% in the first nine months of 2014 and 2013, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2014 and 2013 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Depreciation and amortization	Php10,038	24	Php9,934	25	Php104	1
Compensation and employee benefits	9,726	23	9,685	24	41	–
Interconnection costs	6,185	15	6,021	15	164	3
Repairs and maintenance	4,939	12	4,102	10	837	20
Professional and other contracted services	2,735	7	2,575	7	160	6
Rent	1,801	4	1,930	5	(129)	(7)
Cost of sales	1,528	4	1,204	3	324	27
Selling and promotions	1,487	4	1,171	3	316	27
Taxes and licenses	1,046	3	888	2	158	18
Communication, training and travel	632	1	555	2	77	14
Insurance and security services	527	1	491	1	36	7
Asset impairment	304	1	857	2	(553)	(65)
Amortization of intangible assets	–	–	1	–	(1)	(100)
Other expenses	450	1	473	1	(23)	(5)
Total	Php41,398	100	Php39,887	100	Php1,511	4

Depreciation and amortization charges increased by Php104 million, or 1%, to Php10,038 million due to higher depreciable asset base.

Compensation and employee benefits expenses increased by Php41 million to Php9,726 million primarily due to higher provision for pension benefits, salaries and employee benefits, and LTIP costs, partially offset by lower MRP costs, as a result of the retroactive adjustment of the application of the Revised PAS 19 of Php732 million in the first nine months of 2013. Employee headcount decreased to 9,724 in the first nine months of 2014 as compared with 9,892 in the same period in 2013 mainly due to a decrease in ePLDT's headcount.

Interconnection costs increased by Php164 million, or 3%, to Php6,185 million primarily due to higher international interconnection/settlement costs as a result of higher average settlement rate to other domestic carriers, and data and other network interconnection/settlement costs particularly Fibernet, partially offset by lower national interconnection/settlement costs due to lower sent paid calls that terminated to other domestic carriers.

Repairs and maintenance expenses increased by Php837 million, or 20%, to Php4,939 million primarily due to higher repairs and maintenance costs on central office/telecoms equipment, higher IT software and hardware maintenance costs, and an increase in office electricity expenses, and site gas and fuel, partially offset by lower repairs and maintenance costs for buildings.

Professional and other contracted service expenses increased by Php160 million, or 6%, to Php2,735 million primarily due to higher contracted and technical service fees, partially offset by lower consultancy fees.

Rent expenses decreased by Php129 million, or 7%, to Php1,801 million primarily due to decrease in site, pole, office building and leased circuit rental charges.

Cost of sales increased by Php324 million, or 27%, to Php1,528 million primarily due to the launching of 2-in-1 tablet, *FabTab* for *MyDSL* retention and *TVolution* units, and higher sale of *Telpad* and *PLP* units, partially offset by lower computer bundled sales.

Selling and promotion expenses increased by Php316 million, or 27%, to Php1,487 million primarily due to higher commissions, events costs and advertising, partially offset by lower public relations expenses.

Taxes and licenses increased by Php158 million, or 18%, to Php1,046 million as a result of higher business-related taxes.

Communication, training and travel expenses increased by Php77 million, or 14%, to Php632 million mainly due to higher training and travel, and communication, and mailing and courier charges, partly offset by lower fuel consumption costs, and freight and hauling charges.

Insurance and security services increased by Php36 million, or 7%, to Php527 million primarily due to higher expenses on office security services and group health insurance premiums, partially offset by lower insurance and bond premiums.

Asset impairment decreased by Php553 million, or 65%, to Php304 million mainly due to lower provision for uncollectible receivables, partly offset by fixed asset impairment provision in the first nine months of 2014.

Amortization of intangible assets amounted to Php1 million for the first nine months of 2013.

Other expenses decreased by Php23 million, or 5%, to Php450 million primarily due to lower 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 nine months ended September 30, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php242	Php318	(Php76)	24
Equity share in net earnings (losses) of associates	88	(18)	106	(589)
Gains on derivative financial instruments – net	42	508	(466)	(92)
Foreign exchange losses – net	(128)	(1,000)	872	87
Financing costs – net	(2,673)	(2,644)	(29)	1
Others	1,917	1,755	162	9
Total	(Php512)	(Php1,081)	Php569	(53)

Our fixed line business' other expenses amounted to Php512 million in the first nine months of 2014, a decrease of Php569 million, or 53%, from Php1,081 million in the same period in 2013 due to the combined effects of the following: (i) lower foreign exchange losses by Php872 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; (ii) an increase in other income by Php162 million due to gain on fair value adjustment on investment properties and gain on purchase price adjustment in relation with the acquisition of Digitel, partially offset by gain on sale of Philweb shares in 2013 and lower gain on insurance claims; (iii) equity share in net earnings of associates of Php88 million in the first nine months of 2014 as against equity share in net losses of associates of Php18 million in the same period in 2013; (iv) higher financing costs by Php29 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; (v) a decrease in interest income by Php76 million due to lower weighted average peso and dollar interest rates, partly offset by higher amount of peso placements and the depreciation of the Philippine peso to the U.S. dollar; and (vi) lower gain on derivative financial instruments by Php466 million due to narrower dollar and peso interest rate differentials in the first nine months of 2014 as compared with the same period in 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.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php2,258 million in the first nine months of 2014, an increase of Php2,339 million, from a tax benefit of Php81 million in the same period in 2013 primarily due to higher taxable income and the recognition of deferred tax assets on intangible assets in 2013. The effective tax rates for our fixed line business were 28% and negative 1% in the first nine months of 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,868 million in the first nine months of 2014, a decrease of Php425 million, or 7%, as compared with Php6,293 million in the same period in 2013.

EBITDA

Our fixed line business' EBITDA increased by Php944 million, or 5%, to Php18,904 million in the first nine months of 2014 from Php17,960 million in the same period in 2013.

Core Income

Our fixed line business' core income decreased by Php1,080 million, or 15%, to Php5,925 million in the first nine months of 2014 from Php7,005 million in the same period in 2013, primarily as a result of higher fixed line expenses and provision for income tax, partially offset by higher fixed line revenues and lower other expenses.

Others

Other Income

The following table summarizes the breakdown of other income for other business segment for the nine months ended September 30, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php2,599	Php2,393	Php206	9
Interest income	226	101	125	124
Foreign exchange gains – net	10	364	(354)	(97)
Gains on derivative financial instruments – net	3	–	3	–
Financing costs-net	(16)	–	(16)	–
Others	1,543	37	1,506	4,070
Total	Php4,365	Php2,895	Php1,470	51

Other income increased by Php1,470 million, or 51%, to Php4,365 million in the first nine months of 2014 from Php2,895 million in the same period in 2013 primarily due to higher other income by Php1,506 million due to the realized portion of deferred gain on the transfer of Meralco shares, higher equity share in net earnings of associates by Php206 million mainly due to the increase in equity share in the net earnings of Beacon, an increase in interest income by Php125 million and gain on derivative financial instruments of Php3 million in the first nine months of 2014, partially offset by the increase in financing costs of Php16 million and decrease in net foreign exchange gains of Php354 million in the first nine months of 2014.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php4,232 million, an increase of Php1,416 million, or 50%, in the first nine months of 2014 from Php2,816 million in the same period in 2013.

Core Income

Our other business segment's core income amounted to Php4,287 million in the first nine months of 2014, an increase of Php1,789 million, or 72%, as compared with Php2,498 million in the same period in 2013 mainly as a result of higher other income.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2014 and 2013, as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2014 and December 31, 2013:

	For the nine months ended September 30,	
	2014	2013
	(in millions)	
Cash Flows		
Net cash flows provided by operating activities	Php46,573	Php51,605
Net cash flows used in investing activities	(36,589)	(8,001)
Capital expenditures	*15,981*	*14,888*
Net cash flows used in financing activities	(18,517)	(52,652)
Net decrease in cash and cash equivalents	(8,211)	(8,517)

	September 30,	December 31,
	2014	2013
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php117,928	Php88,924
Obligations under finance lease	2	6
	117,930	88,930
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,774	15,166
Obligations under finance lease maturing within one year	5	5
	14,779	15,171
Total interest-bearing financial liabilities	132,709	104,101
Total equity attributable to equity holders of PLDT	122,427	137,147
	Php255,136	Php241,248
Other Selected Financial Data		
Total assets	Php416,137	Php399,638
Property, plant and equipment	186,988	192,665
Cash and cash equivalents	23,694	31,905
Short-term investments	640	718

Our consolidated cash and cash equivalents and short-term investments totaled Php24,334 million as at September 30, 2014. Principal sources of consolidated cash and cash equivalents in the first nine months of 2014 were cash flows from operating activities amounting to Php46,573 million, proceeds from availment of long-term debt of Php39,692 million, dividends received of Php1,855 million, interest received of Php459 million and proceeds from disposal of property, plant and equipment of Php210 million. These funds were used principally for: (1) dividend payments of Php39,884 million; (2) purchase of investments available for sale of Php19,577 million; (3) capital outlays, including capitalized interest, of Php15,981 million; (4) debt principal and interest payments of Php11,664 million and Php3,599 million, respectively; (5) net payment of capital expenditures under long-term financing of Php2,435 million; (6) settlement of derivative financial instruments of Php485 million; (7) net payment for purchase of investment in debt securities of Php330 million; (8) deposit for future PDRs of Php300 million; (9) payment for purchase of investment in joint ventures and associates of Php300 million; and (10) payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php188 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php30,374 million as at September 30, 2013. Principal sources of consolidated cash and cash equivalents in the first nine months of 2013 were cash flows from operating activities amounting to Php51,605 million, proceeds from availment of long-term debt of Php31,701 million, proceeds from disposal of investments, net of cash of deconsolidated subsidiaries, of Php12,075 million, proceeds from sale of Philweb shares of Php1,009 million, interest received of Php742 million and dividends received of Php426 million. These funds were used principally for: (1) debt principal and interest payments of Php42,473 million and Php3,832 million, respectively; (2) dividend payments of Php37,634 million; (3) capital outlays, net of capitalized interest, of Php14,888 million; (4) deposits for PDR subscription of Php3,950 million;

(5) payment for purchase of investments in joint ventures and associates of Php1,644 million; (6) net payment for purchase of investment in debt securities of Php501 million; and (7) settlements of derivative financial instruments of Php427 million.

Operating Activities

Our consolidated net cash flows provided by operating activities decreased by Php5,032 million, or 10%, to Php46,573 million in the first nine months of 2014 from Php51,605 million in the same period in 2013, primarily due to lower level of collection of receivables and higher pension contribution, corporate taxes paid, and higher settlement of accounts payable, partially offset by lower settlement of other liabilities and higher prepayments.

Cash flows provided by operating activities of our fixed line business decreased by Php5,297 million, or 26%, to Php15,185 million in the first nine months of 2014 from Php20,482 million in the same period in 2013, primarily due to lower level of collection of account receivable and other receivables, lower operating income, and higher pension contribution, partially offset by lower level of settlement of accounts payable and other liabilities. Cash flows provided by operating activities of our wireless business decreased by Php1,224 million, or 4%, to Php31,508 million in the first nine months of 2014 from Php32,732 million in the same period in 2013, primarily due to higher level of settlement of accounts payable, lower operating income and lower level of collection of outstanding receivables, partially offset by lower level of settlement of other liabilities and lower prepayments. Cash flows used in operating activities of our other business amounted to Php27 million in the first nine months of 2014 as against cash flows provided by operating activities of Php3,034 million in the same period in 2013 primarily due to collection of receivables and lower level of settlement of accounts payable in 2013.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php36,589 million in the first nine months of 2014, a change of Php28,588 million, from Php8,001 million in the same period in 2013, primarily due to the combined effects of the following: (1) higher purchase of investments available for sale of Php19,562 million; (2) net proceeds from disposal of investments, including sale of Philweb shares, of Php13,081 million in 2013; (3) the increase in capital expenditures by Php1,093 million; (4) lower interest received by Php283 million; (5) higher payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php181 million; (6) net payment for purchase of investment in debt securities of Php171 million; (7) a decrease in payment for deposit for future PDRs subscription of Php3,650 million; (8) higher dividends received by Php1,429 million; and (9) lower payment for purchase of investment in joint ventures and associates of Php1,344 million.

Our consolidated capital expenditures, including capitalized interest, in the first nine months of 2014 totaled Php15,981 million, an increase of Php1,093 million, or 7%, as compared with Php14,888 million in the same period in 2013, primarily due to Smart Group's higher capital spending, partially offset by PLDT's and DMPI's lower capital spending. PLDT's capital spending of Php6,459 million in the first nine months of 2014 was principally used to finance the full public switched telephone network migration, aggressive Fiber-to-the-Home and NGN roll-out and expansion, outside plant rehabilitation, build and upgrade of various submarine cable facilities, fortification of transport backbone, expansion of access fiber and various customer premises equipment acquisition to complement introduction of new products and services. Smart Group's capital spending of Php8,773 million in the first nine months of 2014 was used primarily to modernize and expand its 3G/4G cellular and mobile broadband networks, including the roll-out of LTE network, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. DMPI's capital spending of Php144 million in the first nine months of 2014 was intended principally to finance the continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The balance represented other subsidiaries' capital spending.

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

Financing Activities

On a consolidated basis, cash flows used in financing activities amounted to Php18,517 million in the first nine months of 2014, a decrease of Php34,135 million, or 65%, from Php52,652 million in the same period in 2013, resulting largely from the combined effects of the following: (1) lower net payments of long-term debt by Php30,809 million; (2) higher proceeds from availment of long-term debt by Php7,991 million; (3) lower interest payment by Php233 million; (4) net reductions to capital expenditures under long-term financing by Php2,608 million; (5) higher cash dividend payments of Php2,250 million; and (6) settlement of derivative financial instruments of Php58 million.

Debt Financing

Proceeds from availment of long-term debt for the nine months ended September 30, 2014 amounted to Php39,692 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php11,664 million and Php3,599 million, respectively, in the first nine months of 2014.

Our consolidated long-term debt increased by Php28,612 million, or 27%, to Php132,702 million as at September 30, 2014 from Php104,090 million as at December 31, 2013, primarily due to our issuance of Php15 billion fixed rate retail bonds in 2014, drawings from our term loan facilities and the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php44.88 as at September 30, 2014 from Php44.40 as at December 31, 2013, partially offset by debt amortizations and prepayments. As at September 30, 2014, the long-term debt levels of PLDT and Smart increased by 40% and 22%, to Php79,491 million and Php43,636 million, respectively, while DMPI's long-term debt level decreased by 16%, to Php9,575 million, as compared with December 31, 2013.

On January 29, 2014, Smart signed a Php3,000 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php3,000 million was fully drawn on February 5, 2014. The amount of Php2,986 million, net of unamortized debt discount, remained outstanding as at September 30, 2014.

On February 3, 2014, Smart signed a Php500 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php500 million was fully drawn on February 7, 2014 and remained outstanding as at September 30, 2014.

On February 6, 2014, PLDT issued Php15,000 million Philippine SEC-registered fixed rate peso retail bonds under the Indenture dated January 22, 2014. Proceeds from the issuance of these bonds are intended to be used to finance capital expenditures and/or refinance existing obligations which were used for capital expenditures for network expansion and improvements. The amount comprises of Php12.4 billion and Php2.6 billion bonds due in 2021 and 2024, with a coupon rate of 5.2250% and 5.2813%, respectively. The amount of Php14,861 million, net of unamortized debt discount, remained outstanding as at September 30, 2014.

On March 7, 2014, Smart signed a US$100 million term loan facility agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing twelve months after drawdown date, with final installment on March 7, 2019. The loan was partially drawn in the amounts of US$35 million and US$30 million on March 24, 2014 and August 1, 2014, respectively. The amount of US$63 million, or Php2,843 million, net of unamortized debt discount, remained outstanding as at September 30, 2014.

On March 26, 2014, Smart signed a Php2,000 million term loan facility agreement with Union Bank of the Philippines to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021. The amount of Php2,000 million was fully drawn on March 28, 2014 and remained outstanding as at September 30, 2014.

On April 2, 2014, PLDT signed a Php1,500 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 4, 2024. The amount of Php1,500 million was fully drawn on April 4, 2014 and remained outstanding as at September 30, 2014.

On April 2, 2014, Smart signed a Php500 million term loan facility agreement with Banco de Oro Unibank, Inc. to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021. The amount of Php500 million loan was fully drawn on April 4, 2014 and remained outstanding as at September 30, 2014.

On May 14, 2014, Smart signed a US$50 million term loan facility agreement with Mizuho Bank Ltd., Singapore Branch to finance the capital expenditures for its network upgrade and expansion program. The loan is payable over five years in nine equal semi-annual installments commencing eleven months after drawdown date, with final installment on May 14, 2019. The loan was fully drawn on July 1, 2014. The amount of US$49 million, or Php2,211 million, net of unamortized debt discount, remained outstanding as at September 30, 2014.

On May 23, 2014, PLDT signed a Php1,000 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on May 28, 2024. The amount of Php1,000 million was fully drawn on May 28, 2014 and remained outstanding as at September 30, 2014.

On June 9, 2014, PLDT signed a Php1,000 million term loan facility agreement with LBP to finance its capital expenditure requirements. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity on June 13, 2024. The amount of Php1,000 million was fully drawn on June 13, 2014 and remained outstanding as at September 30, 2014.

On July 28, 2014, PLDT signed a Php1,500 million term loan facility with UBP to finance its capital expenditures and/or refinance its existing loan obligations, the proceeds of which were utilized for its service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity on July 31, 2024. The amount of Php1,500 million was fully drawn on July 31, 2014 and remained outstanding as at September 30, 2014.

On August 5, 2014, PLDT signed a US$100 million term loan facility agreement with Philippine National Bank, or PNB, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date and the balance payable upon maturity on August 11, 2020. Two separate drawdowns of US$50 million each were drawn on August 11, 2014 and August 15, 2014. The amount of US$100 million, or Php4,488 million, remained outstanding as at September 20, 2014.

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

The loan was drawn in full on September 2, 2014. The amount of US$50 million, or Php2,244 million, remained outstanding as at September 30, 2014.

Approximately Php61,428 million principal amount of our consolidated outstanding long-term debt as at September 30, 2014 is scheduled to mature over the period from 2014 to 2017. Of this amount, Php29,986 million is attributable to PLDT, Php23,847 million to Smart and Php7,595 million to DMPI.

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

Debt Covenants

As a result of the acquisition of Digitel, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGSHI, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGSHI. These loans and guarantees contained certain representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGSHI by PLDT as guarantor under these loans. As at September 30, 2014, the outstanding balance of DMPI loans covered by PLDT guarantees is Php9,575 million. There are no outstanding Digitel loans covered by PLDT guarantees as at September 30, 2014.

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

As at September 30, 2014 and December 31, 2013, we are in compliance with all of our debt covenants.

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

Financing Requirements

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

Off-Balance Sheet Arrangements

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

Equity Financing

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

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

Consolidated cash dividend payments in the first nine months of 2014 amounted to Php39,884 million as compared with Php37,634 million paid to shareholders in the same period in 2013.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the nine months ended September 30, 2014 and 2013:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
				(in millions, except per share amount)	
2014					
Common					
Regular Dividend	August 5, 2014	August 28, 2014	September 26, 2014	69.00	14,908
					14,908
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	January 28, 2014	February 27, 2014	March 15, 2014	–	12
	May 6, 2014	May 27, 2014	June 15, 2014	–	12
	August 5, 2014	August 20, 2014	September 15, 2014	–	13
					37
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	–
Voting Preferred Stock	March 4, 2014	March 20, 2014	April 15, 2014	–	3
	June 10, 2014	June 27, 2014	July 15, 2014	–	3
	September 30, 2014	October 15, 2014	October 15, 2014	–	2
					8
Charged to Retained Earnings					Php14,953
2013					
Common					
Regular Dividend	August 7, 2013	August 30, 2013	September 27, 2013	63.00	13,611
					13,611
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	January 29, 2013	February 28, 2013	March 15, 2013	–	12
	May 7, 2013	May 27, 2013	June 15, 2013	–	13
	August 7, 2013	August 23, 2013	September 15, 2013	–	12
					37
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	–
Voting Preferred Stock	March 5, 2013	March 20, 2013	April 15, 2013	–	3
	June 14, 2013	June 28, 2013	July 15, 2013	–	3
	August 27, 2013	September 11, 2013	October 15, 2013	–	2
					8
Charged to Retained Earnings					Php13,656

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

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at September 30, 2014 and December 31, 2013, see *Note 28 – Financial Assets and Liabilities – Liquidity Risks* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php17 million and Php20 million as at September 30, 2014 and December 31, 2013, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

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

	Fair Values	
	September 30, 2014	June 30, 2014
	(Unaudited) (in millions)	
Noncurrent Financial Assets		
Available-for-sale financial investments		
Listed equity securities	Php98	Php96
Unlisted equity securities	19,706	126
Investments in debt securities and other long-term investments – net of current portion	2,657	2,589
Derivative financial assets – interest rate swap	178	26
Advances and other noncurrent assets – net of current portion	3,891	3,970
Total Financial Assets	Php26,530	Php6,807
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php119,587	Php110,983
Derivative financial liabilities	1,503	1,820
Customers' deposits	1,934	1,979
Deferred credits and other noncurrent liabilities	16,189	16,111
Total noncurrent financial liabilities	139,213	130,893
Current Financial Liabilities		
Derivative financial liabilities	209	105
Total Financial Liabilities	Php139,422	Php130,998

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

	September 30, 2014	June 30, 2014
	(Unaudited) (in millions)	
Profit and Loss		
From continuing operations		
Interest income	Php567	Php395
Gains (losses) on derivative financial instruments – net	13	(164)
Accretion on financial liabilities	(119)	(84)
Interest on loans and other related items	(3,976)	(2,555)
Other Comprehensive Income		
Net fair value gains (losses) on cash flow hedges – net of tax	21	(7)
Net gains (losses) on available-for-sale financial investments – net of tax	(4)	2

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 the first nine months of 2014 and 2013 were 4.4% and 2.8%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

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

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

PLDT's Investment in Rocket Internet AG, or Rocket

On August 7, 2014, PLDT and Rocket entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets.

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

Concurrent with the investment, PLDT and Rocket agreed to jointly develop mobile and online payments in emerging markets. The partnership will leverage PLDT's experience and intellectual property in mobile payments and remittance platforms, together with Rocket's global technology platform, to provide products and services for the "unbanked, uncarded and unconnected" population in emerging markets.

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

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

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

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

On October 1, 2014, Rocket announced the pricing of its initial public offering, or IPO, at €42.50 per share. On October 2, 2014, Rocket listed in the Entry Standard of the Frankfurt Stock Exchange under the ticker symbol "RKET." PLDT's ownership stake in Rocket after the IPO was reduced to 6.6%. At the closing price of Rocket as at November 3, 2014 of €41.50 per share, the total market value of PLDT's stake in Rocket is €419 million or Php23,563 million.

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

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

On June 24, 2014, Beacon and MPIC, with PCEV's conformity, entered into a Share Purchase Agreement to sell 56 million common shares, comprising of approximately 5% interest in Meralco to MPIC at a price of Php235 per share for an aggregate consideration of Php13,243 million. Based on the agreement, MPIC settled a portion of the consideration amounting to Php3,000 million immediately upon signing of the agreement and the balance will be payable on or before February 2015.

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

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

On January 28, 2014, IPCDSI entered into a Sale and Purchase Agreement with a third party to acquire 100% ownership in Rack IT with total purchase price of Php164 million. Rack IT was incorporated to engage in the business of providing data center services, encompassing all the information technology and facility-related components or activities that support the projects and operations of a data center. As at the date of this report, Rack IT is still at pre-operating phase and construction of its data center facility, which is located in Sucat, Parañaque, is still ongoing.

Related Party Transactions

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

ANNEX I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at September 30, 2014:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php15,099	Php4,567	Php1,441	Php455	Php8,636
Corporate subscribers	7,981	1,483	1,369	684	4,445
Foreign administrations	7,858	1,460	845	576	4,977
Domestic carriers	1,244	669	197	91	287
Dealers, agents and others	4,843	3,851	155	97	740
Total	37,025	Php12,030	Php4,007	Php1,903	Php19,085
Less: Allowance for doubtful accounts	15,238				
Total Receivables - net	Php21,787				

ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at September 30, 2014 and 2013:

	2014	2013
Current Ratio[1]	0.47:1.0	0.53:1.0
Net Debt to Equity Ratio[2]	0.89:1.0	0.57:1.0
Net Debt to EBITDA Ratio[3]	1.45:1.0	1.02:1.0
Total Debt to EBITDA Ratio[4]	1.78:1.0	1.41:1.0
Asset to Equity Ratio[5]	3.40:1.0	2.80:1.0
Interest Coverage Ratio[6]	9.62:1.0	6.36:1.0
Profit Margin[7]	22%	23%
Return on Assets[8]	8.4%	9.2%
Return on Equity[9]	27%	26%
EBITDA Margin[10]	46%	49%

(1) *Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)*
(2) *Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity.*
(3) *Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.*
(4) *Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) divided by EBITDA for the 12 months average period.*
(5) *Asset to equity ratio is measured as total assets divided by total equity.*
(6) *Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the period, divided by total financing cost for the 12 months average period.*
(7) *Profit margin is derived by dividing net income for the period with total revenues for the period.*
(8) *Return on assets is measured as net income for the 12 months average period divided by average total assets.*
(9) *Return on Equity is measured as net income for the 12 months average period divided by average total equity.*
(10) *EBITDA margin for the period is measured as EBITDA divided by service revenues for the period.EBITDA for the period is measured as net income for the period excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) for the period.*

SIGNATURES

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

Registrant: PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________

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

Signature and Title: ______________________________

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

Date: November 4, 2014