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)

June 30, 2014

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

August 5, 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 six (6) months ended June 30, 2014.

Very truly yours,

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

General Office P.O. Box 2148 Makati City, Philippines

PLD 1

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

11,946
As of June 30, 2014

Total No. of Stockholders

Total Amount of Borrowings

N/A	N/A
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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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>June 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 June 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 June 30, 2014 (unaudited) and December 31, 2013 (audited) and for the six months ended June 30, 2014 and 2013 (unaudited) and related notes (pages F-1 to F-168) 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 Php43.65 to US$1.00, the volume weighted average exchange rate as at June 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

	Six Months ended June 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	Php85,428	Php83,001	Php2,427	3
Expenses	62,515	59,105	3,410	6
Other income (expenses)	3,323	(1,358)	4,681	(345)
Income before income tax	26,236	22,538	3,698	16
Net income for the period	20,001	19,724	277	1
Continuing operations	*20,001*	*17,861*	*2,140*	*12*
Discontinued operations	–	*1,863*	*(1,863)*	*(100)*
Core income	19,834	19,395	439	2
Continuing operations	*19,834*	*19,494*	*340*	*2*
Discontinued operations	–	*(99)*	*99*	*(100)*
EBITDA	38,204	39,808	(1,604)	(4)
EBITDA margin(1)	46%	49%	–	–
Reported earnings per common share:				
Basic	92.54	91.09	1.45	2
Diluted	92.54	91.09	1.45	2
Core earnings per common share(2):				
Basic	91.66	89.64	2.02	2
Diluted	91.66	89.64	2.02	2

	June 30,	December 31,	Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php411,152	Php399,638	Php11,514	3
Property, plant and equipment – net	186,394	192,665	(6,271)	(3)
Cash and cash equivalents and short-term investments	43,926	32,623	11,303	35
Total equity attributable to equity holders of PLDT	130,100	137,147	(7,047)	(5)
Notes payable and long-term debt, including current portion	122,993	104,090	18,903	18
Net debt(3) to equity ratio	0.61x	0.52x	–	–

	Six Months ended June 30,		Increase (Decrease)	
	2014	2013	Amount	%
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php31,656	Php31,798	(Php142)	–
Net cash provided by (used in) investing activities	(10,241)	1,153	(11,394)	(988)
Capital expenditures	*8,104*	*4,787*	*3,317*	*69*
Net cash used in financing activities	(10,362)	(31,552)	21,190	(67)
Operational Data				
Number of cellular subscribers	68,897,106	73,383,385	(4,486,279)	(6)
Number of fixed line subscribers	2,157,114	2,061,051	96,063	5
Number of broadband subscribers:	3,619,014	3,242,563	376,451	12
Fixed Line	*1,020,094*	*920,147*	*99,947*	*11*
Wireless	*2,598,920*	*2,322,416*	*276,504*	*12*
Number of employees:	17,310	18,076	(766)	(4)
Fixed Line	*9,667*	*9,858*	*(191)*	*(2)*
LEC	*7,510*	*7,033*	*477*	*7*
Others	*2,157*	*2,825*	*(668)*	*(24)*
Wireless	*7,643*	*8,218*	*(575)*	*(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
June 30, 2014	Php43.65	Php44.50
December 31, 2013	44.40	42.44
June 30, 2013	43.26	41.24
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 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 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 and PLDT Communications and Energy Ventures, Inc., or PCEV, our investment companies.

As at June 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 four 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 six months ended June 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 six months ended June 30, 2014 and 2013:

	2014	2013
	(in millions)	
EBITDA from continuing operations	Php38,204	Php39,808
Add (deduct) adjustments to continuing operations:		
Other income	3,048	1,453
Equity share in net earnings of associates and joint ventures	2,083	1,505
Foreign exchange gains (losses) – net	459	(1,922)
Interest income	395	485
Gains (losses) on derivative financial instruments – net	(164)	448
Retroactive effect of adoption of Revised PAS 19[1]	–	(927)
Asset impairment	(227)	
Amortization of intangible assets	(574)	(453)
Financing costs – net	(2,498)	(3,327)
Provision for income tax	(6,235)	(4,677)
Depreciation and amortization	(14,490)	(14,532)
Total adjustments	(18,203)	(21,947)
Net income from continuing operations	20,001	17,861
Net income from discontinued operations	–	1,863
Consolidated net income	Php20,001	Php19,724

[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 six months ended June 30, 2014 and 2013:

	2014	2013
	(in millions)	
Core income from continuing operations	Php19,834	Php19,494
Core income from discontinued operations	–	(99)
Consolidated core income	19,834	19,395
Add (deduct) adjustments to continuing operations:		
Foreign exchange gains (losses) – net	459	(1,922)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	(4)	89
Gains (losses) on derivative financial instruments – net, excluding hedge cost	(10)	594
Net income (loss) attributable to noncontrolling interests	(22)	17
Retroactive effect of adoption of Revised PAS 19[1]	–	(927)
Asset impairment	(227)	
Net tax effect of aforementioned adjustments	(29)	516
Total adjustments	167	(1,633)
Adjustment to discontinued operations	–	1,962
Net income from continuing operations	20,001	17,861
Net income from discontinued operations	–	1,863
Consolidated net income	Php20,001	Php19,724

[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 six months ended June 30, 2014 and 2013. In each of the six months ended June 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 six months ended June 30, 2014					
Revenues	Php59,696	Php33,327	Php–	(Php7,595)	Php85,428
Expenses	42,665	27,603	2	(7,755)	62,515
Other income (expenses)	(90)	(102)	3,675	(160)	3,323
Income before income tax	16,941	5,622	3,673	–	26,236
Provision for income tax	4,738	1,471	26	–	6,235
Net income/Segment profit	12,203	4,151	3,647	–	20,001
EBITDA	25,450	12,596	(2)	160	38,204
EBITDA margin[(1)]	44%	39%	–	(2%)	46%
Core income from continuing operations	12,080	4,104	3,650	–	19,834
For the six months ended June 30, 2013					
Revenues	58,837	31,476	–	(7,312)	83,001
Expenses	39,560	27,227	2	(7,684)	59,105
Other income (expenses)	(2,776)	(329)	1,973	(226)	(1,358)
Income before income tax	16,501	3,920	1,971	146	22,538
Provision for income tax	3,837	767	73	–	4,677
Net income/Segment profit	12,664	3,153	1,898	146	19,724
Continuing operations	12,664	3,153	1,898	146	17,861
Discontinued operations	–	–	–	–	1,863
EBITDA from continuing operations	28,068	11,370	(2)	372	39,808
EBITDA margin[(1)]	49%	37%	–	(5%)	49%
Core income	13,911	3,911	1,526	146	19,395
Continuing operations	13,911	3,911	1,526	146	19,494
Discontinued operations	–	–	–	–	(99)
Increase (Decrease)					
Revenues	859	1,851	–	(283)	2,427
Expenses	3,105	376	–	(71)	3,410
Other income (expenses)	2,686	227	1,702	66	4,681
Income before income tax	440	1,702	1,702	(146)	3,698
Provision for income tax	901	704	(47)	–	1,558
Net income/Segment profit	(461)	998	1,749	(146)	277
Continuing operations	(461)	998	1,749	(146)	2,140
Discontinued operations	–	–	–	–	(1,863)
EBITDA	(2,618)	1,226	–	(212)	(1,604)
Core income	(1,831)	193	2,124	(146)	439
Continuing operations	(1,831)	193	2,124	(146)	340
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 Php85,428 million in the first half of 2014, an increase of Php2,427 million, or 3%, as compared with Php83,001 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 international and national long distance services from our fixed line business, and lower satellite and other services from our wireless business.

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

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php59,696	70	Php58,837	71	Php859	1
Fixed line	33,327	39	31,476	38	1,851	6
Inter-segment transactions	(7,595)	(9)	(7,312)	(9)	(283)	4
Consolidated	Php85,428	100	Php83,001	100	Php2,427	3

Expenses

Consolidated expenses increased by Php3,410 million, or 6%, to Php62,515 million in the first half of 2014 from Php59,105 million in the same period in 2013, as a result of higher expenses related to cost of sales, selling and promotions, repairs and maintenance, professional and other contracted services, rent, taxes and licenses, amortization of intangible assets, communication, training and travel, insurance and security, and asset impairment, 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 Php927 million for the six months ended June 30, 2013, interconnection costs, depreciation and amortization, and other operating expenses.

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

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php42,665	68	Php39,560	67	Php3,105	8
Fixed line	27,603	44	27,227	46	376	1
Others	2	–	2	–	–	–
Inter-segment transactions	(7,755)	(12)	(7,684)	(13)	(71)	1
Consolidated	Php62,515	100	Php59,105	100	Php3,410	6

Other Income (Expenses)

Consolidated other income amounted to Php3,323 million in the first half of 2014, a change of Php4,681 million, or 345%, as against other expenses of Php1,358 million in the same period in 2013, primarily due to the combined effects of the following: (i) foreign exchange gains of Php459 million in the first half of 2014 as against foreign exchange losses of Php1,922 million in the same period in 2013 mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the appreciation of the Philippine peso relative to the U.S. dollar to Php43.65 as at June 30, 2014 from Php44.40 as at December 31, 2013 as against a depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012; (ii) an increase in other income by Php1,595 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares, 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; (iii) a decrease in net financing costs by Php829 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; (iv) an increase in the equity share in net earnings of associates by Php578 million; (v) lower interest income by Php90 million due to lower weighted average peso and dollar 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) loss on derivative financial instruments of Php164 million in the first half of 2014 as against gain on derivative financial instruments of Php448 million in the same period in 2013 due to the appreciation of the Philippine peso in the first half of 2014 as against a depreciation of the Philippine peso relative to the U.S. dollar in the same period in 2013, and narrower dollar and peso interest rate differentials.

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

	2014	2013	Change Amount	Change %
	(in millions)			
Wireless	(Php90)	(Php2,776)	Php2,686	(97)
Fixed line	(102)	(329)	227	(69)
Others	3,675	1,973	1,702	86
Inter-segment transactions	(160)	(226)	66	(29)
Consolidated	Php3,323	(Php1,358)	Php4,681	(345)

Net Income

Consolidated net income increased by Php277 million, or 1%, to Php20,001 million in the first half of 2014, from Php19,724 million, including net income from discontinued operations of Php1,863 million, in the same period in 2013. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated other income – net by Php4,681 million; (ii) an increase in consolidated revenues by Php2,427 million; (iii) an increase in consolidated provision for income tax by Php1,558 million, which was mainly due to higher taxable income across our businesses; (iv) income from discontinued operations of Php1,863 million in 2013; and (v) an increase in consolidated expenses by Php3,410 million. Our consolidated basic and diluted EPS increased to Php92.54 in the first half of 2014 from consolidated basic and diluted EPS of Php91.09 in the same period in 2013. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the first six months of 2014 and 2013.

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

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php12,203	61	Php12,664	64	(Php461)	(4)
Fixed line	4,151	21	3,153	16	998	32
Others	3,647	18	1,898	10	1,749	92
Inter-segment transactions	–	–	146	1	(146)	(100)
Continuing operations	20,001	100	17,861	91	2,140	12
Discontinued operations	–	–	1,863	9	(1,863)	(100)
Consolidated	Php20,001	100	Php19,724	100	Php277	1

EBITDA

Our consolidated EBITDA amounted to Php38,204 million in the first half of 2014, a decrease of Php1,604 million, or 4%, as compared with Php39,808 million in the same period in 2013, primarily due to higher cost of sales and operating expenses driven by selling and promotions, repairs and maintenance costs, professional and other contracted services, compensation and employee benefits, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php927 million for the six months ended June 30, 2013, rent, and taxes and licenses, partially offset by higher consolidated revenues and lower provision for doubtful accounts.

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

	2014	%	2013	%	Change Amount	Change %
			(in millions)			
Wireless	Php25,450	67	Php28,068	70	(Php2,618)	(9)
Fixed line	12,596	33	11,370	29	1,226	11
Others	(2)	–	(2)	–	–	–
Inter-segment transactions	160	–	372	1	(212)	(57)
Continuing operations	Php38,204	100	Php39,808	100	(Php1,604)	(4)

Core Income

Our consolidated core income amounted to Php19,834 million in the first half of 2014, an increase of Php439 million, or 2%, as compared with Php19,395 million, including negative core income from discontinued operations of Php99 million, in the same period in 2013, primarily due to higher other income and an increase in 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 Php927 million for the six months ended June 30, 2013, and higher provision for income tax. Our consolidated basic and diluted core EPS, increased to Php91.66 in the first half of 2014 from Php89.64 in the same period in 2013.

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

					Change	
	2014	%	2013	%	Amount	%
			(in millions)			
Wireless	Php12,080	61	Php13,911	72	(Php1,831)	(13)
Fixed line	4,104	21	3,911	20	193	5
Others	3,650	18	1,526	8	2,124	139
Inter-segment transactions	–	–	146	1	(146)	(100)
Continuing operations	19,834	100	19,494	101	340	2
Discontinued operations	–	–	(99)	(1)	99	(100)
Consolidated	Php19,834	100	Php19,395	100	Php439	2

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php59,696 million in the first half of 2014, an increase of Php859 million, or 1%, from Php58,837 million in the same period in 2013.

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

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php52,268	88	Php52,238	89	Php30	–
Wireless broadband, satellite and others						
Wireless broadband	4,989	8	4,680	8	309	7
Satellite and others	631	1	697	1	(66)	(9)
	57,888	97	57,615	98	273	–
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,808	3	1,222	2	586	48
Total Wireless Revenues	Php59,696	100	Php58,837	100	Php859	1

Service Revenues

Our wireless service revenues in the first half of 2014 increased by Php273 million to Php57,888 million as compared with Php57,615 million in the same period in 2013, mainly as a result of higher revenues from our wireless broadband due to a 12% growth in our broadband subscriber base, as well as an increase in our cellular services due to higher mobile internet, voice and VAS revenues, partially offset by lower text messaging revenues and revenues generated from our satellite business and other services. 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 Php44.50 for the six months ended June 30, 2014 from Php41.24 for the six months ended June 30, 2013. As a percentage of our total wireless revenues, service revenues accounted for 97% and 98% in the first half of 2014 and 2013, respectively.

Cellular Service

Our cellular service revenues in the first half of 2014 amounted to Php52,268 million, an increase of Php30 million from Php52,238 million in the same period in 2013. Cellular service revenues accounted for 90% and 91% of our wireless service revenues in the first half 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.

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

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Cellular service revenues	Php52,268	Php52,238	Php30	–
By service type	*50,959*	*51,034*	*(75)*	–
Prepaid	40,572	41,908	(1,336)	(3)
Postpaid	10,387	9,126	1,261	14
By component	*50,959*	*51,034*	*(75)*	–
Voice	25,917	25,056	861	3
Data	25,042	25,978	(936)	(4)
Others(1)	*1,309*	*1,204*	*105*	*9*

(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 and other Smart subsidiaries.*

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

			Increase (Decrease)	
	2014	2013	Amount	%
Cellular subscriber base	68,897,106	73,383,385	(4,486,279)	(6)
Prepaid	66,339,954	71,197,952	(4,857,998)	(7)
Smart	*24,610,726*	*24,631,062*	*(20,336)*	–
Talk 'N Text	*28,056,116*	*31,821,014*	*(3,764,898)*	*(12)*
Sun Cellular	*13,673,112*	*14,745,876*	*(1,072,764)*	*(7)*
Postpaid	2,557,152	2,185,433	371,719	17
Sun Cellular	*1,587,540*	*1,357,926*	*229,614*	*17*
Smart	*969,612*	*827,507*	*142,105*	*17*
Systemwide traffic volumes (in million minutes)				
Calls	27,015	27,977	(962)	(3)
Domestic	25,433	26,184	(751)	(3)
Inbound	*562*	*631*	*(69)*	*(11)*
Outbound	*24,871*	*25,553*	*(682)*	*(3)*
International	1,582	1,793	(211)	(12)
Inbound	*1,428*	*1,596*	*(168)*	*(11)*
Outbound	*154*	*197*	*(43)*	*(22)*
SMS/Data count (in million hits)	222,486	258,426	(35,940)	(14)
Text messages	221,550	257,556	(36,006)	(14)
Domestic	221,127	257,127	(36,000)	(14)
Bucket-Priced/Unlimited	206,038	241,136	(35,098)	(15)
Standard	15,089	15,991	(902)	(6)
International	423	429	(6)	(1)
Value-Added Services	930	849	81	10
Financial Services	6	21	(15)	(71)
Mobile internet (in TB)	15,494	7,010	8,484	121

Revenues generated from our prepaid cellular services amounted to Php40,572 million in the first half of 2014, a decrease of Php1,336 million, or 3%, as compared with Php41,908 million in the same period in 2013. Prepaid cellular service revenues accounted for 80% and 82% of cellular voice and data revenues in the first half of 2014 and 2013, respectively. Revenues generated from postpaid cellular service amounted to Php10,387 million in the first half of 2014, an increase of Php1,261 million, or 14%, as compared with Php9,126 million earned in the same period in 2013, and which accounted for 20% and 18% of cellular voice and data revenues in the first half of 2014 and 2013, respectively. The decrease in revenues from our prepaid cellular services was primarily due to lower text messaging revenues and a decline in international 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 Php861 million, or 3%, to Php25,917 million in the first half of 2014 from Php25,056 million in the same period in 2013, primarily due to higher cellular domestic voice revenues. Cellular voice services accounted for 50% and 48% of our cellular service revenues in the first half of 2014 and 2013, respectively.

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

			Increase (Decrease)	
	2014	**2013**	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php2,163	Php2,380	(Php217)	(9)
Outbound	16,285	14,861	1,424	10
	18,448	17,241	1,207	7
International				
Inbound	6,478	6,698	(220)	(3)
Outbound	991	1,117	(126)	(11)
	7,469	7,815	(346)	(4)
Total	Php25,917	Php25,056	Php861	3

Domestic voice service revenues increased by Php1,207 million, or 7%, to Php18,448 million in the first half of 2014 from Php17,241 million in the same period in 2013, primarily due to an increase in domestic outbound voice service revenues by Php1,424 million, partially offset by lower domestic inbound voice service revenues by Php217 million.

Revenues from domestic outbound voice service increased by Php1,424 million, or 10%, to Php16,285 million in the first half of 2014 from Php14,861 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 24,871 million minutes decreased by 682 million minutes, or 3%, from 25,553 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 Php217 million, or 9%, to Php2,163 million in the first half of 2014 from Php2,380 million in the same period in 2013 due to lower traffic originating from other mobile carriers. Domestic inbound call volumes of 562 million minutes in the first half of 2014, decreased by 69 million minutes, or 11%, from 631 million minutes in the same period in 2013.

International voice service revenues decreased by Php346 million, or 4%, to Php7,469 million in the first half of 2014 from Php7,815 million in the same period in 2013 primarily due to lower international inbound voice service revenues by Php220 million, or 3%, to Php6,478 million in the first half of 2014 from Php6,698 million in the same period in 2013, as well as the decline in international outbound voice service revenues by Php126 million, or 11%, to Php991 million in the first half of 2014 from Php1,117 million in the same period in 2013. The decrease in international voice service revenues was due to lower international voice traffic and lower 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 1,582 million minutes, a decrease of 211 million minutes, or 12%, from 1,793 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 Php936 million, or 4%, to Php25,042 million in the first half of 2014 from Php25,978 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 half of 2014 and 2013, respectively.

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

			Increase (Decrease)	
	2014	2013	Amount	%
		(in millions)		
Text messaging				
Domestic	Php18,844	Php21,376	(Php2,532)	(12)
Bucket-Priced/Unlimited	13,140	14,931	(1,791)	(12)
Standard	5,704	6,445	(741)	(11)
International	1,646	1,759	(113)	(6)
	20,490	23,135	(2,645)	(11)
Mobile internet[(1)]	3,726	2,106	1,620	77
Value-added services[(2)]	819	682	137	20
Financial services	7	55	(48)	(87)
Total	Php25,042	Php25,978	(Php936)	(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 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 Php20,490 million in the first half of 2014, a decrease of Php2,645 million, or 11%, as compared with Php23,135 million in the same period in 2013, and accounted for 82% and 89% of our total cellular data service revenues in the first half of 2014 and 2013, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower various bucket-priced/unlimited SMS and standard offers, as well as lower international text messaging revenues. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php13,140 million in the first half of 2014, a decrease of Php1,791 million, or 12%, as compared with Php14,931 million in the same period in 2013. Bucket-priced/unlimited text messages decreased by 35,098 million, or 15%, to 206,038 million in the first half of 2014 from 241,136 million in the same period in 2013.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php741 million, or 11%, to Php5,704 million in the first half of 2014 from Php6,445 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 902 million, or 6% to 15,089 million in the first half of 2014 from 15,991 million in the same period in 2013, as a result of the decline in domestic outbound standard SMS volumes.

International text messaging revenues amounted to Php1,646 million in the first half of 2014, a decrease of Php113 million, or 6%, from Php1,759 million in the same period in 2013 mainly due to lower SMS traffic, 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 Php1,620 million, or 77%, to Php3,726 million in the first half of 2014 from Php2,106 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 15,494, terabyte, or TB, in the first half of 2014, an increase of 8,484 TB, or 121%, from 7,010 TB in the same period in 2013.

VAS contributed revenues of Php819 million in the first half of 2014, an increase of Php137 million, or 20%, as compared with Php682 million in the same period in 2013, primarily due to an increase in revenues from SMS/MMS-based VAS revenues and music downloads, partially offset by lower revenues from *Pasa Load/Give-a-Load* VAS.

Subscriber Base, ARPU and Churn Rates

As at June 30, 2014, our cellular subscribers totaled 68,897,106 a decrease of 4,486,279, or 6%, over the cellular subscriber base of 73,383,385 as at June 30, 2013. Our cellular prepaid subscriber base decreased by 4,857,998, or 7%, to 66,339,954 as at June 30, 2014 from 71,197,952 as at June 30, 2013, while our cellular postpaid subscriber base increased by 371,719, or 17%, to 2,557,152 as at June 30, 2014 from 2,185,433 as at June 30, 2013. The decrease in subscriber base was primarily due to lower *Talk 'N Text* subscribers by 3,764,898, or 12%, and a net decrease in *Sun Cellular* subscribers by 843,150, or 5%, partially offset by a net increase in Smart subscribers by 121,769. 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 June 30, 2014 and 2013, respectively.

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

			Increase (Decrease)	
	2014	2013	Amount	%
Prepaid	(1,327,796)	3,586,415	(4,914,211)	(137)
Smart	*2,039*	*(430,391)*	*432,430*	*(100)*
Talk 'N Text	*(1,428,901)*	*3,375,961*	*(4,804,862)*	*(142)*
Sun Cellular	*99,066*	*640,845*	*(541,779)*	*(85)*
Postpaid	179,275	(69,488)	248,763	358
Smart	*79,916*	*144,027*	*(64,111)*	*(45)*
Sun Cellular	*99,359*	*(213,515)*	*312,874*	*147*
Total	(1,148,521)	3,516,927	(4,665,448)	(133)

Prepaid subscribers reflected net reductions of 1,327,796 subscribers, while postpaid subscribers reflected net activations of 179,275 subscribers in the first half of 2014, as compared with prepaid net activations of 3,586,415 and postpaid net reductions of 69,488 subscribers in the same period in 2013.

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

	2014	2013
	(in %)	
Prepaid		
Smart	5.6	5.4
Talk 'N Text	6.1	3.4
Sun Cellular	9.6	9.7
Postpaid		
Smart	2.6	2.6
Sun Cellular	1.7	5.1

For *Smart Prepaid* subscribers, the average monthly churn rate in the first half of 2014 and 2013 were 5.6% and 5.4%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 6.1% and 3.4% in the first half of 2014 and 2013, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers was 9.6% and 9.7% in the first half of 2014 and 2013, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers was 2.6% in each of the first half of 2014 and 2013. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 1.7% and 5.1% in the first half of 2014 and 2013, respectively.

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

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2014	**2013**	**Amount**	**%**	**2014**	**2013**	**Amount**	**%**
Prepaid								
Smart	Php148	Php160	(Php12)	(8)	Php133	Php141	(Php8)	(6)
Talk 'N Text	98	98	–	–	88	87	1	1
Sun Cellular	74	66	8	12	67	57	10	18
Postpaid								
Smart	1,090	1,168	(78)	(7)	1,080	1,154	(74)	(6)
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
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 Php309 million, or 7%, to Php4,989 million in the first half of 2014 from Php4,680 million in the same period in 2013, primarily due to an increase in prepaid revenues by Php210 million, or 15%, to Php1,567 million in the first half of 2014 from Php1,357 million in the same period in 2013, and higher postpaid revenues by Php99 million, or 3%, to Php3,422 million in the first half of 2014 from Php3,323 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 six months ended June 30, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
Wireless Broadband Revenues (in millions)	Php4,989	Php4,680	Php309	7
Prepaid	1,567	1,357	*210*	*15*
Postpaid	3,422	3,323	99	*3*
Wireless Broadband Subscribers	2,598,920	2,322,416	276,504	12
Prepaid	*1,771,098*	*1,547,849*	*223,249*	14
Smart	1,496,560	1,254,400	242,160	19
Sun	274,538	293,449	(18,911)	(6)
Postpaid	*827,822*	*774,567*	*53,255*	7
Smart	555,547	549,120	6,427	1
Sun	272,275	225,447	46,828	21

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 2,598,920 subscribers as at June 30, 2014, a net increase of 276,504 subscribers, or 12%, as compared with 2,322,416 subscribers as at June 30, 2013, primarily due to an increase by 248,587, or 14%, in *Smart Broadband* subscribers, complemented by a net increase in *Sun Broadband* subscribers by 27,917, or 5%, as at June 30, 2014. Our prepaid wireless broadband subscriber base increased by 223,249 subscribers, or 14%, to 1,771,098 subscribers as at June 30, 2014 from 1,547,849 subscribers as at June 30, 2013, while our postpaid wireless broadband subscriber base increased by 53,255 subscribers, or 7%, to 827,822 subscribers as at June 30, 2014 from 774,567 subscribers as at June 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 have 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 Php66 million, or 9%, to Php631 million in the first half of 2014 from Php697 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 Php44.50 in the six months ended June 30, 2014 from Php41.24 for the six months ended June 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. Our wireless non-service revenues increased by Php586 million, or 48%, to Php1,808 million in the first half of 2014 from Php1,222 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 retention and activation packages, partly offset by lower quantity of broadband *Plug-It* modems.

Expenses

Expenses associated with our wireless business amounted to Php42,665 million in the first half of 2014, an increase of Php3,105 million, or 8%, from Php39,560 million in the same period in 2013. A significant portion of this increase was attributable to higher expenses related to cost of sales, rent, selling and promotions, repairs and maintenance, professional and other contracted services, asset impairment, taxes and licenses, and amortization of intangible assets, partially offset by lower depreciation and amortization, compensation and employee benefits, and other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 71% and 67% in the first half of 2014 and 2013, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the six months ended June 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	Php7,845	19	Php8,144	21	(Php299)	(4)
Cost of sales	5,818	14	4,777	12	1,041	22
Rent	5,596	13	4,929	12	667	14
Repairs and maintenance	4,326	10	3,941	10	385	10
Interconnection costs	4,047	10	4,083	10	(36)	(1)
Compensation and employee benefits	4,004	9	4,204	11	(200)	(5)
Selling and promotions	3,998	9	3,488	9	510	15
Professional and other contracted services	2,203	5	1,849	5	354	19
Taxes and licenses	1,356	3	1,100	3	256	23
Asset impairment	1,120	3	796	2	324	41
Communication, training and travel	794	2	751	2	43	6
Insurance and security services	608	1	563	1	45	8
Amortization of intangible assets	574	1	452	1	122	27
Other expenses	376	1	483	1	(107)	(22)
Total	Php42,665	100	Php39,560	100	Php3,105	8

Depreciation and amortization charges decreased by Php299 million, or 4%, to Php7,845 million primarily due to a lower depreciable asset base.

Cost of sales increased by Php1,041 million, or 22%, to Php5,818 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 Php667 million, or 14%, to Php5,596 million primarily due to an increase in site, leased circuit and office building rental charges. As at June 30, 2014, we had 10,379 cell sites, 21,281 cellular/mobile broadband base stations and 3,143 fixed wireless broadband base stations, of which 10,338 are 4G-capable broadband stations, as compared with 9,774 cell sites, 20,306 cellular/mobile broadband base stations and 2,898 fixed wireless broadband base stations, of which 9,001 are 4G-capable broadband stations, as at June 30, 2013.

Repairs and maintenance expenses increased by Php385 million, or 10%, to Php4,326 million mainly due to higher maintenance costs on cellular and broadband network facilities, as well as higher IT hardware, site gas and fuel, and office and site electricity consumption costs, partially offset by lower maintenance costs on IT software.

Interconnection costs decreased by Php36 million, or 1%, to Php4,047 million primarily due to a decrease in interconnection charges on international calls and domestic SMS, partially offset by an increase in interconnection charges on domestic voice services.

Compensation and employee benefits expenses decreased by Php200 million, or 5%, to Php4,004 million primarily due to lower MRP, salaries and employee benefits, and LTIP costs, partly offset by higher provision for pension benefits. Employee headcount decreased to 7,643 as at June 30, 2014 as compared with 8,218 as at June 30, 2013, primarily due to the availment of the MRP by DMPI employees in 2013.

Selling and promotion expenses increased by Php510 million, or 15%, to Php3,998 million primarily due to higher events, commissions, advertising and public relations expenses.

Professional and other contracted service fees increased by Php354 million, or 19%, to Php2,203 million primarily due to an increase in consultancy, outsourced service, bill printing and payment facility fees, partly offset by lower call center and contracted service fees.

Taxes and licenses increased by Php256 million, or 23%, to Php1,356 million due to higher business-related taxes.

Asset impairment increased by Php324 million, or 41%, to Php1,120 million primarily due to higher provision for uncollectible receivables.

Communication, training and travel expenses increased by Php43 million, or 6%, to Php794 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 Php45 million, or 8%, to Php608 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 Php122 million, or 27%, to Php574 million primarily due to license fees paid for exclusive partnership and use of music catalogues.

Other expenses decreased by Php107 million, or 22%, to Php376 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 six months ended June 30, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php186	(Php1,397)	Php1,583	(113)
Interest income	109	226	(117)	(52)
Equity share in net losses of associates	–	(41)	41	(100)
Gains (losses) on derivative financial instruments – net	(32)	4	(36)	(900)
Financing costs – net	(804)	(1,512)	708	(47)
Others	451	(56)	507	(905)
Total	(Php90)	(Php2,776)	Php2,686	(97)

Our wireless business' other expenses amounted to Php90 million in the first half of 2014, a decrease of Php2,686 million, or 97%, from Php2,776 million in the same period in 2013, primarily due to the combined effects of the following: (i) net foreign exchange gains of Php186 million in the first half of 2014 as against net foreign exchange losses of Php1,397 million in the same period in 2013 on account of the revaluation of net foreign currency-denominated liabilities due to an appreciation of the Philippine peso relative to the U.S. dollar to Php43.65 as at June 30, 2014 from Php44.40 as at December 31, 2013 as compared to a depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012; (ii) lower net financing costs by Php708 million primarily due to decreases on accretion on financial liabilities and lower average interest rates on loans, partly offset by lower capitalized interest and an increase in financing charges; (iii) an increase in other income by Php507 million mainly due to higher income from consultancy and net gain on insurance claims; (iv) equity share in net losses of associates of Php41 million in the first half of 2013; (v) net losses on derivative financial instruments of Php32 million in the first half of 2014 as against net gains on derivative financial instruments of Php4 million in the same period in 2013 due to an appreciation of the Philippine peso to the U.S. dollar in the first half of 2014 as against a depreciation of the Philippine peso to the U.S. dollar in the same period in 2013; and (vi) a decrease in interest income by Php117 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 Php901 million, or 23%, to Php4,738 million in the first half of 2014 from Php3,837 million in the same period in 2013 primarily due to higher taxable income. The effective tax rates for our wireless business were 28% and 23% in the first half of 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php461 million, or 4%, to Php12,203 million in the first half of 2014 from Php12,664 million recorded in the same period in 2013.

EBITDA

Our wireless business' EBITDA decreased by Php2,618 million, or 9%, to Php25,450 million in the first half of 2014 from Php28,068 million in the same period in 2013.

Core Income

Our wireless business' core income decreased by Php1,831 million, or 13%, to Php12,080 million in the first half of 2014 from Php13,911 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 Php195 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 Php33,327 million in the first half of 2014, an increase of Php1,851 million, or 6%, from Php31,476 million in the same period in 2013.

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

					Increase (Decrease)	
	2014	**%**	**2013**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Local exchange	Php8,243	25	Php8,128	26	Php115	1
International long distance	5,702	17	5,770	18	(68)	(1)
National long distance	2,199	7	2,344	8	(145)	(6)
Data and other network	14,898	45	13,444	42	1,454	11
Miscellaneous	1,194	3	988	3	206	21
	32,236	97	30,674	97	1,562	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,091	3	802	3	289	36
Total Fixed Line Revenues	Php33,327	100	Php31,476	100	Php1,851	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 Php1,562 million, or 5%, to Php32,236 million in the first half of 2014 from Php30,674 million in the same period in 2013 due to an increase in the revenue contribution 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 six months ended June 30, 2014 and 2013:

	2014	2013	Increase Amount	%
Total local exchange service revenues (in millions)	Php8,243	Php8,128	Php115	1
Number of fixed line subscribers	2,157,114	2,061,051	96,063	5
Postpaid	2,095,564	2,000,357	95,207	5
Prepaid	61,550	60,694	856	1
Number of fixed line employees	7,510	7,033	477	7
Number of fixed line subscribers per employee	287	293	(6)	(2)

Revenues from our local exchange service increased by Php115 million, or 1%, to Php8,243 million in the first half of 2014 from Php8,128 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 25% and 26% in the first half of 2014 and 2013, respectively.

International Long Distance Service

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

	2014	2013	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php5,702	Php5,770	(Php68)	(1)
Inbound	5,093	5,084	9	–
Outbound	609	686	(77)	(11)
International call volumes (in million minutes, except call ratio)	1,017	1,114	(97)	(9)
Inbound	862	909	(47)	(5)
Outbound	155	205	(50)	(24)
Inbound-outbound call ratio	5.6:1	4.4:1	–	–

Our total international long distance service revenues decreased by Php68 million, or 1%, to Php5,702 million in the first half of 2014 from Php5,770 million in the same period in 2013, primarily due to the decrease in call volumes, partially offset by the net increase in average settlement and billing rates 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 Php44.50 for the six months ended June 30, 2014 from Php41.24 for the six months ended June 30, 2013. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% and 19% in the first half of 2014 and 2013, respectively.

Our revenues from inbound international long distance service increased by Php9 million to Php5,093 million in the first half of 2014 from Php5,084 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 and the increase in average settlement rate in dollar terms, partially offset by the decrease in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php77 million, or 11%, to Php609 million in the first half of 2014 from Php686 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 Php146 million, or 6%, to Php2,162 million in the first half of 2014 from Php2,308 million in the same period in 2013. The decrease was primarily due to lower international inbound and outbound service revenues as a result of a decrease in the average settlement rate in dollar terms, lower inbound and outbound call volumes, partially offset by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and an increase in the average billing rate in dollar terms.

National Long Distance Service

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

	2014	2013	Decrease Amount	%
Total national long distance service revenues (in millions)	Php2,199	Php2,344	(Php145)	(6)
National long distance call volumes (in million minutes)	407	430	(23)	(5)

Our national long distance service revenues decreased by Php145 million, or 6%, to Php2,199 million in the first half of 2014 from Php2,344 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. The percentage contribution of national long distance revenues to our fixed line service revenues were 7% and 8% in the first half of 2014 and 2013, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Php93 million, or 5%, to Php1,722 million in the first half of 2014 from Php1,815 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 six months ended June 30, 2014 and 2013:

	2014	2013	Increase Amount	%
Data and other network service revenues (in millions)	Php14,898	Php13,444	Php1,454	11
Domestic	10,660	9,811	849	9
Broadband	*6,741*	*5,939*	*802*	*14*
Leased Lines and Others	*3,919*	*3,872*	*47*	*1*
International				
Leased Lines and Others	*3,238*	*2,785*	*453*	*16*
Data Centers	1,000	848	152	18
Subscriber base				
Broadband	*1,020,094*	*920,147*	*99,947*	*11*
SWUP	*31,857*	*26,681*	*5,176*	*19*

Our data and other network services posted revenues of Php14,898 million in the first half of 2014, an increase of Php1,454 million, or 11%, from Php13,444 million in the same period in 2013, primarily due to higher revenues from DSL and *Fibr*, 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 half of 2014 and 2013, respectively.

Domestic

Domestic data services contributed Php10,660 million in the first half of 2014, an increase of Php849 million, or 9%, as compared with Php9,811 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 half 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 Php6,741 million in the first half of 2014, an increase of Php802 million, or 14%, from Php5,939 million in the same period in 2013 as a result of the increase in the number of subscribers by 99,947, or 11%, to 1,020,094 subscribers as at June 30, 2014 from 920,147 subscribers as at June 30, 2013. Broadband revenues accounted for 45% and 44% of total data and other network service revenues in the first half of 2014 and 2013, respectively.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at June 30, 2014, *SWUP* had a total subscriber base of 31,857, up by 5,176, or 19%, from 26,681 subscribers as at June 30, 2013. Leased lines and other data revenues amounted to Php3,919 million in the first half of 2014, an increase of Php47 million, or 1%, from Php3,872 million in the same period in 2013, primarily due to higher revenues from IP-VPN and *Shops.Work*, partially offset by lower Metro Ethernet revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 26% and 29% in the first half 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 Php453 million, or 16%, to Php3,238 million in the first half of 2014 from Php2,785 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, partially offset by lower inland-cable lease revenues. The percentage contribution of international data service revenues to total data and other network service revenues were 22% and 21% in the first half 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 June 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 Php152 million, or 18%, to Php1,000 million in the first half of 2014 from Php848 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 half 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 Php206 million, or 21%, to Php1,194 million in the first half of 2014 from Php988 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 half of 2014 and 2013, respectively.

Non-service Revenues

Non-service revenues increased by Php289 million, or 36%, to Php1,091 million in the first half of 2014 from Php802 million in the same period in 2013, primarily due to higher revenues from sale of *Telpad* and *PLP* units, partially offset by lower revenues from sale of equipment for *PLDT UNO*, a managed unified communications offering.

Expenses

Expenses related to our fixed line business totaled Php27,603 million in the first half of 2014, an increase of Php376 million, or 1%, as compared with Php27,227 million in the same period in 2013. The increase was primarily due to higher expenses related to cost of sales, depreciation and amortization, repairs and maintenance, professional and other contracted services, selling and promotions expenses, and interconnection costs, partly offset by lower expenses related to asset impairment, compensation and employee benefits, rent, and taxes and licenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 83% and 87% in the first half of 2014 and 2013, respectively.

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

					Increase (Decrease)	
	2014	%	2013	%	Amount	%
			(in millions)			
Depreciation and amortization	Php6,645	24	Php6,388	24	Php257	4
Compensation and employee benefits	6,450	24	6,682	25	(232)	(3)
Interconnection costs	4,177	15	4,127	15	50	1
Repairs and maintenance	3,095	11	2,935	11	160	5
Professional and other contracted services	1,924	7	1,784	7	140	8
Rent	1,235	5	1,396	5	(161)	(12)
Cost of sales	1,111	4	802	3	309	39
Selling and promotions	944	4	808	3	136	17
Taxes and licenses	591	2	641	2	(50)	(8)
Communication, training and travel	422	2	392	1	30	8
Insurance and security services	351	1	331	1	20	6
Asset impairment	301	–	595	2	(294)	(49)
Amortization of intangible assets	–	–	1	–	(1)	(100)
Other expenses	357	1	345	1	12	3
Total	Php27,603	100	Php27,227	100	Php376	1

Depreciation and amortization charges increased by Php257 million, or 4%, to Php6,645 million due to higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php232 million, or 3%, to Php6,450 million primarily due to lower MRP costs, as a result of the retroactive adjustment of the application of the Revised PAS 19 of Php732 million in the first half of 2013, partially offset by higher provision for pension benefits, an increase in salaries and employee benefits, and LTIP costs. Employee headcount decreased to 9,667 in the first half of 2014 as compared with 9,858 in the same period in 2013 mainly due to a decrease in ePLDT's headcount.

Interconnection costs increased by Php50 million, or 1%, to Php4,177 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 Php160 million, or 5%, to Php3,095 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, partially offset by lower repairs and maintenance costs for buildings.

Professional and other contracted service expenses increased by Php140 million, or 8%, to Php1,924 million primarily due to higher contracted and technical service fees, partially offset by lower consultancy and legal fees.

Rent expenses decreased by Php161 million, or 12%, to Php1,235 million primarily due to decrease in site, leased circuit and pole rental charges.

Cost of sales increased by Php309 million, or 39%, to Php1,111 million primarily due to higher sale of *PLP* units, partially offset by lower sale of *Telpad* units and *PLDT UNO* equipment.

Selling and promotion expenses increased by Php136 million, or 17%, to Php944 million primarily due to higher commissions, advertising and events costs, partially offset by lower public relations expenses.

Taxes and licenses decreased by Php50 million, or 8%, to Php591 million as a result of lower municipal licenses and other business-related taxes.

Communication, training and travel expenses increased by Php30 million, or 8%, to Php422 million mainly due to higher training and travel, and communication charges, partly offset by lower fuel consumption costs, freight and hauling, and mailing and courier charges.

Insurance and security services increased by Php20 million, or 6%, to Php351 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 Php294 million, or 49%, to Php301 million mainly due to lower provision for uncollectible receivables, partly offset by fixed asset impairment provision in the first half of 2014.

Other expenses increased by Php12 million, or 3%, to Php357 million primarily due to higher various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the six months ended June 30, 2014 and 2013:

			Change	
	2014	**2013**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php280	(Php868)	Php1,148	(132)
Interest income	156	227	(71)	(31)
Equity share in net earnings (losses) of associates	106	(12)	118	(983)
Gains (losses) on derivative financial instruments – net	(139)	444	(583)	(131)
Financing costs – net	(1,719)	(1,823)	104	(6)
Others	1,214	1,703	(489)	(29)
Total	(Php102)	(Php329)	Php227	(69)

Our fixed line business' other expenses amounted to Php102 million in the first half of 2014, a decrease of Php227 million, or 69%, from Php329 million in the same period in 2013 due to the combined effects of the following: (i) foreign exchange gains of Php280 million in the first half of 2014 as against foreign exchange losses of Php868 million in the same period in 2013 on account of revaluation of net foreign currency-denominated liabilities due to appreciation of the Philippine peso relative to the U.S. dollar to Php43.65 as at June 30, 2014 from Php44.40 as at December 31, 2013 as against a depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012; (ii) equity share in net earnings of associates of Php106 million in the first half of 2014 as against equity share in net losses of associates of Php12 million in the same period in 2013; (iii) lower financing costs by Php104 million mainly due to lower weighted average interest rate and financing charges, and higher capitalized interest, partly offset by 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; (iv) a decrease in interest income by Php71 million due to lower weighted average peso and dollar interest rates, and lower amount of dollar placements, partly offset by higher amount of peso placements and the depreciation of the Philippine peso to the U.S. dollar; (v) a decrease in other income by Php489 million due to gain on sale of Philweb shares in 2013, lower gain on insurance claims, partially offset by gain on purchase price adjustment in relation with the acquisition of Digitel; and (vi) loss on derivative financial instruments of Php139 million in the first half of 2014 as against gain on derivative financial instruments of Php444 million in the same period in 2013 due to an appreciation of the Philippine peso to the U.S. dollar in the first half of 2014 as against a depreciation of the Philippine peso to the U.S. dollar in the same period in 2013 and narrower dollar and peso interest rate differentials.

Provision for Income Tax

Provision for income tax amounted to Php1,471 million in the first half of 2014, an increase of Php704 million, or 92%, from Php767 million in the same period in 2013 primarily due to higher taxable income. The effective tax rates for our fixed line business were 26% and 20% in the first half of 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php4,151 million in the first half of 2014, an increase of Php998 million, or 32%, as compared with Php3,153 million in the same period in 2013.

EBITDA

Our fixed line business' EBITDA increased by Php1,226 million, or 11%, to Php12,596 million in the first half of 2014 from Php11,370 million in the same period in 2013.

Core Income

Our fixed line business' core income increased by Php193 million, or 5%, to Php4,104 million in the first half of 2014 from Php3,911 million in the same period in 2013, primarily as a result of higher fixed line revenues, partially offset by higher fixed line expenses, provision for income tax and other expenses.

Others

Other Income

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

			Change	
	2014	**2013**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,977	Php1,558	Php419	27
Interest income	155	40	115	288
Gains on derivative financial instruments – net	7	–	7	100
Foreign exchange gains (losses) – net	(7)	343	(350)	(102)
Others	1,543	32	1,511	4,722
Total	Php3,675	Php1,973	Php1,702	86

Other income increased by Php1,702 million, or 86%, to Php3,675 million in the first half of 2014 from Php1,973 million in the same period in 2013 primarily due to higher other income by Php1,511 million due to the realized portion of deferred gain on the transfer of Meralco shares, higher equity share in net earnings of associates by Php419 million mainly due to the increase in equity share in the net earnings of Beacon, an increase in interest income by Php115 million and gain on derivative financial instruments of Php7 million in the first half of 2014, partially offset by net foreign exchange losses of Php7 million in the first half of 2014 as against net foreign exchange gains of Php343 million in the same period in 2013.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php3,647 million, an increase of Php1,749 million, or 92%, in the first half of 2014 from Php1,898 million in the same period in 2013.

Core Income

Our other business segment's core income amounted to Php3,650 million in the first half of 2014, an increase of Php2,124 million, or 139%, as compared with Php1,526 million in the same period in 2013 mainly as a result of higher other income and lower provision for income tax.

Liquidity and Capital Resources

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

	For the six months ended June 30,	
	2014	2013
	(in millions)	
Cash Flows		
Net cash flows provided by operating activities	Php31,656	Php31,798
Net cash flows provided by (used in) investing activities	(10,241)	1,153
Capital expenditures	*8,104*	*4,787*
Net cash flows used in financing activities	(10,362)	(31,552)
Net increase in cash and cash equivalents	10,962	1,837
	June 30,	**December 31,**
	2014	**2013**
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php108,967	Php88,924
Obligations under finance lease	3	6
	108,970	88,930
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,026	15,166
Obligations under finance lease maturing within one year	5	5
	14,031	15,171
Total interest-bearing financial liabilities	123,001	104,101
Total equity attributable to equity holders of PLDT	130,100	137,147
	Php253,101	Php241,248
Other Selected Financial Data		
Total assets	Php411,152	Php399,638
Property, plant and equipment	186,394	192,665
Cash and cash equivalents	42,867	31,905
Short-term investments	1,059	718

Our consolidated cash and cash equivalents and short-term investments totaled Php43,926 million as at June 30, 2014. Principal sources of consolidated cash and cash equivalents in the first half of 2014 were cash flows from operating activities amounting to Php31,656 million, proceeds from availment of long-term debt of Php27,767 million, dividends received of Php1,855 million, interest received of Php285 million and proceeds from disposal of property, plant and equipment of Php187 million. These funds were used principally for: (1) dividend payments of Php25,012 million; (2) capital outlays, including capitalized interest, of Php8,104 million; (3) debt principal and interest payments of Php7,750 million and Php2,143 million, respectively; (4) net payment of capital expenditures under long-term financing of Php2,735 million; (5) net payment for purchase of investment in debt securities of Php1,030 million; (6) decrease in short-term investments of Php345 million; (7) deposit for future PDRs of Php300 million; (8) payment for purchase of investment in joint venture of Php300 million; (9) settlement of derivative financial instruments of Php234 million; and (10) payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php191 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php43,518 million as at June 30, 2013. Principal sources of consolidated cash and cash equivalents in the first half of 2013 were cash flows from operating activities amounting to Php31,798 million, proceeds from availment of long-term debt of Php16,722 million, proceeds from disposal of investments, including the sale of Philweb shares, of Php14,050 million, interest received of Php535 million and dividends received of Php431 million. These funds were used principally for: (1) dividend payments of Php24,153 million; (2) debt principal and interest payments of Php18,066 million and Php2,509 million, respectively; (3) capital outlays of Php4,787 million; (4) net payment of capital expenditure under long-term financing of Php3,238 million; (5) payment for deposit for future PDR subscription of Php2,600 million; and (6) settlements of derivative financial instruments of Php187 million.

Operating Activities

Our consolidated net cash flows provided by operating activities decreased by Php142 million to Php31,656 million in the first half of 2014 from Php31,798 million in the same period in 2013, primarily due to lower level of collection of receivables and higher corporate taxes paid, partially offset by lower settlement of other liabilities and higher operating income.

Cash flows from operating activities of our wireless business decreased by Php1,633 million, or 8%, to Php20,114 million in the first half of 2014 from Php21,747 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. Cash flows used in operating activities of our other business amounted to Php16 million in the first half of 2014 as against cash flows provided by operating activities of Php3,270 million in the same period in 2013 primarily due to collection of receivables and availment of advances in 2013. Cash flows provided by operating activities of our fixed line business increased by Php4,924 million, or 74%, to Php11,604 million in the first half of 2014 from Php6,680 million in the same period in 2013, primarily due to lower level of settlement of accounts payable and other liabilities, higher operating income and higher level of collection of receivables, partially offset by higher pension contributions.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php10,241 million in the first half of 2014, a change of Php11,394 million, as against cash flows provided by investing activities of Php1,153 million in the same period in 2013, primarily due to the combined effects of the following: (1) net proceeds from disposal of investments, including sale of Philweb shares, of Php14,050 million in 2013; (2) the increase in capital expenditures by Php3,317 million; (3) net payment for purchase of investment in debt securities of Php634 million; (4) higher payment for acquisition of shares of minority shareholders and purchase of investment in subsidiaries – net of cash acquired of Php187 million; (5) lower payment for short-term investments by Php2,448 million; (6) a decrease in payment for deposit for future PDRs subscription of Php2,300 million; (7) higher dividends received by Php1,424 million; and (8) lower payment for purchase of investment in associates and joint ventures of Php1,344 million.

Our consolidated capital expenditures, including capitalized interest, in the first half of 2014 totaled Php8,104 million, an increase of Php3,317 million, or 69%, as compared with Php4,787 million in the same period in 2013, primarily due to PLDT's and Smart Group's higher capital spending, partially offset by DMPI's lower capital spending. PLDT's capital spending of Php4,130 million in the first half 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 Php3,555 million in the first half 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 Php57 million in the first half 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 Php10,362 million in the first half of 2014, a decrease of Php21,190 million, or 67%, from Php31,552 million in the same period in 2013, resulting largely from the combined effects of the following: (1) higher proceeds from availment of long-term debt by Php11,045 million; (2) lower net payments of long-term debt by Php10,316 million; (3) lower interest payment by Php366 million; (4) net additions to capital expenditures under long-term financing of Php503 million; (5) higher cash dividend payments of Php859 million; and (6) settlement of derivative financial instruments of Php47 million.

Debt Financing

Proceeds from availment of long-term debt for the six months ended June 30, 2014 amounted to Php27,767 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 Php7,600 million and Php2,143 million, respectively, in the first half of 2014.

Our consolidated long-term debt increased by Php18,903 million, or 18%, to Php122,993 million as at June 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 and drawings from our term loan facilities, partially offset by debt amortizations and prepayments, and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to Php43.65 as at June 30, 2014 from Php44.40 as at December 31, 2013. As at June 30, 2014, the long-term debt levels of PLDT and Smart increased by 25% and 12%, to Php73,107 million and Php40,168 million, respectively, while DMPI's long-term debt level decreased by 13%, to Php9,718 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 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 June 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 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 June 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 Php14,857 million, net of unamortized debt discount, remained outstanding as at June 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 amount of US$35 million and US$30 million on March 24, 2014 and August 1, 2014, respectively. The amount of US$33 million, or Php1,457 million, net of unamortized debt discount, remained outstanding as at June 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 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 June 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 P1,500 million was fully drawn on April 4, 2014 and remained outstanding as at June 30, 2014.

On April 2, 2014, Smart signed a Php500 million term loan facility agreement with BDO 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 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 June 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 twelve months after drawdown date, with final installment on May 14, 2019. The loan was fully drawn on July 1, 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 P1,000 million was fully drawn on May 28, 2014 and remained outstanding as at June 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 facility is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 13, 2024. The amount of P1,000 million was fully drawn on June 13, 2014 and remained outstanding as at June 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.

Approximately Php61,110 million principal amount of our consolidated outstanding long-term debt as at June 30, 2014 is scheduled to mature over the period from 2014 to 2017. Of this amount, Php31,647 million is attributable to PLDT, Php21,709 million to Smart and Php7,754 million to DMPI.

For a complete discussion of our long-term debt, see *Note 20 – 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 June 30, 2014, the outstanding balance of DMPI loans covered by PLDT guarantees is Php9,718 million. There are no outstanding Digitel loans covered by PLDT guarantees as at June 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 June 30, 2014 and December 31, 2013, we are in compliance with all of our debt covenants.

See *Note 20 – 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 half of 2014 amounted to Php25,012 million as compared with Php24,153 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 six months ended June 30, 2014 and 2013:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
				(in millions, except per share amount)	
2013					
Common					
Regular Dividend	August 7, 2013	August 30, 2013	September 27, 2013	63.00	13,612
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
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
Charged to Retained Earnings					Php13,643
2014					
Common					
Regular Dividend	August 5, 2014	August 28, 2014	September 26, 2014	69.00	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
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
Charged to Retained Earnings					Php14,938

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

See *Note 19 – 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 June 30, 2014 and December 31, 2013, see *Note 27 – 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 Php18 million and Php20 million as at June 30, 2014 and December 31, 2013, respectively. The outstanding commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

For further discussions of these risks, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

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

	Fair Values	
	June 30, 2014	March 31, 2014
	(Unaudited)	(Audited)
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial investments		
Listed equity securities	Php96	Php95
Unlisted equity securities	126	126
Investments in debt securities and other long-term investments – net of current portion	2,589	2,899
Derivative financial assets – interest rate swap	26	36
Advances and other noncurrent assets – net of current portion	3,970	3,129
Total noncurrent financial assets	6,807	6,285
Total Financial Assets	Php6,807	Php6,285
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php110,983	Php112,825
Derivative financial liabilities	1,820	1,606
Customers' deposits	1,979	1,976
Deferred credits and other noncurrent liabilities	16,111	17,007
Total noncurrent financial liabilities	130,893	133,414
Current Financial Liabilities		
Derivative financial liabilities	105	109
Total current financial liabilities	105	109
Total Financial Liabilities	Php130,998	Php133,523

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the six months ended June 30, 2014 and three months ended March 31, 2014:

	June 30, 2014	March 31, 2014
	(in millions)	
Profit and Loss		
From continuing operations		
Interest income	Php395	Php192
Gains (losses) on derivative financial instruments – net	(164)	187
Accretion on financial liabilities	(84)	(33)
Interest on loans and other related items	(2,555)	(1,213)
Other Comprehensive Income		
Net fair value gains (losses) on cash flow hedges – net of tax	(7)	5
Net gains on available-for-sale financial investments – net of tax	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 half of 2014 and 2013 was 4.2% and 2.9%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

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

On June 24, 2014, Beacon and MPIC, in conformity with PCEV's approval, entered into a Share Purchase Agreement to sell 56 million common shares, comprising 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, the consideration payable by MPIC to Beacon will be settled as Php3,000 million immediately upon signing and the balance on or before February 2015.

Upon completion of the sale, PCEV's interest in Meralco will be reduced to an effective interest of 22.48%, while MPIC will directly own 5% of Meralco shares, and through Beacon, a further 22.48% thereby taking its effective interest in Meralco to 27.48%. There will be 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 24 – 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 June 30, 2014:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php13,977	Php3,997	Php1,338	Php381	Php8,261
Corporate subscribers	8,127	1,659	1,315	701	4,452
Foreign administrations	6,583	1,483	981	667	3,452
Domestic carriers	1,194	678	121	107	288
Dealers, agents and others	4,501	3,370	196	163	772
Total	34,382	Php11,187	Php3,951	Php2,019	Php17,225
Less: Allowance for doubtful accounts	15,342				
Total Receivables - net	Php19,040				

ANNEX II – FINANCIAL SOUNDNESS INDICATORS

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

	2014	2013
Current Ratio[(1)]	0.63:1.0	0.58:1.0
Net Debt to Equity Ratio[(2)]	0.61:1.0	0.52:1.0
Net Debt to EBITDA Ratio[(3)]	1.04:1.0	0.97:1.0
Total Debt to EBITDA Ratio[(4)]	1.62:1.0	1.53:1.0
Asset to Equity Ratio[(5)]	3.16:1.0	2.75:1.0
Interest Coverage Ratio[(6)]	8.68:1.0	6.73:1.0
Profit Margin[(7)]	24%	24%
Return on Assets[(8)]	9%	9%
Return on Equity[(9)]	27%	25%
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 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 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 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 period divided by average total assets.
[(9)] Return on Equity is measured as net income for the 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 half 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

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: August 5, 2014