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**PHILIPPINE LONG DISTANCE  
TELEPHONE COMPANY**

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(Company's Full Name)

**Ramon Cojuangco Building  
Makati Avenue, Makati City**

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(Company's Address)

**(632) 816-8534**

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(Telephone Number)

**December 31, 2011**

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(Fiscal Year Ending)  
(month & day)

**SEC Form 17-A  
(Annual Report)**

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Form Type

**Not Applicable**

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Amendment Designation (if applicable)

**Not Applicable**

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Period Ended Date

**Not Applicable**

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(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND  
SECTION 141 OF THE CORPORATION CODE  
OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2011
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Exact name of registrant as specified in its charter Philippine Long Distance Telephone Company
5. Republic of the Philippines  
Province, country or other jurisdiction of  
incorporation or organization
6. (SEC Use Only)  
Industry Classification Code:
7. Ramon Cojuangco Building, Makati Avenue, Makati City  
Address of principal office
- 1200  
Postal Code
8. (632) 816-8556  
Registrant's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code, or Sections 4 and 8 of the then Revised Securities Act.

Title of Each Class

Number of Shares of Common Stock Outstanding

Common Capital Stock, Php5 par value

214,436,333 shares as at December 31, 2011

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 Securities Regulation Code and paragraph (2)(a) Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 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 [   ]

13. Aggregate market value of the voting stock held by non-affiliates:

Php617,487,399,234 (216,055,773 shares @ Php2,858 per share as at February 29, 2012)

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## CERTAIN CONVENTIONS AND TERMS USED IN THIS ANNUAL REPORT

Unless the context indicates or otherwise requires, references to “we,” “us,” “our” or “PLDT Group” in this annual report mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to “PLDT” mean Philippine Long Distance Telephone Company, excluding consolidated subsidiaries.

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

In this annual report, each reference to:

- 3rd Brand means 3rd Brand Pte. Ltd., an 85.0%-owned subsidiary of SHPL;
- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, a wholly-owned subsidiary of PLDT;
- ADRs mean American Depositary Receipts;
- ADSs mean American Depositary Shares;
- AIL means ACeS International Limited, a 36.99%-owned associate of ACeS Philippines;
- Airborne Access means Airborne Access Corporation, a 99.4%-owned subsidiary of SBI;
- AGS means ABM Global Solutions, Inc. (formerly BayanTrade, Inc.), and subsidiaries, or AGS Group, a 93.5%-owned subsidiary of ePLDT;
- ARPU means average revenue per user;
- BayanTel means Bayan Telecommunications, Inc.;
- BayanTrade means BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), a 93.5%-owned subsidiary of ePLDT;
- BCC means Bonifacio Communications Corporation, a 75.0%-owned subsidiary of PLDT;
- Beacon means Beacon Electric Asset Holdings, Inc., 50.0%-owned by PCEV;
- BIR means Bureau of Internal Revenue;
- BOW means Blue Ocean Wireless, a 51.0%-owned subsidiary of SHPL, sold to Stratos BV, a third party, in June 2011;
- BPO means business process outsourcing;
- BSP means Bangko Sentral ng Pilipinas;
- BTS means base transceiver station;
- CBA means collective bargaining agreement;
- CG Manual means PLDT Manual on Corporate Governance;
- CGO means Corporate Governance Office;
- ClarkTel means PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT;
- CMTS means cellular mobile telephone system;
- Code of Ethics means PLDT’s Code of Business Conduct and Ethics;
- CPCN means Certificate of Public Convenience and Necessity;
- CSRs mean customer service representatives;
- CURE means Connectivity Unlimited Resource Enterprise, Inc., a wholly-owned subsidiary of FHI;
- CyMed means CyMed, Inc., a wholly-owned subsidiary of SPi;

- DFON means domestic fiber optic network;
- Digitel means Digital Telecommunications Philippines, Inc., a majority-owned subsidiary of PLDT;
- DMPI means Digital Mobile Philippines, Inc., owns the *Sun Cellular business* and a wholly-owned subsidiary of Digitel;
- DSL means digital subscriber line;
- ECC means Executive Compensation Committee;
- ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;
- First Pacific means First Pacific Company Limited;
- First Pacific Group means First Pacific and its Philippine affiliates;
- FHI means Francom Holdings, Inc., a wholly-owned subsidiary of Smart;
- FPHC means First Philippine Holdings Corporation;
- FPUC means First Philippine Utilities Corporation;
- GAAP means generally accepted accounting principles;
- Globe means Globe Telecom, Inc.;
- GNC means Governance and Nomination Committee;
- GSM means global system for mobile communications;
- HB means House Bill;
- I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;
- ICT means information and communications technology;
- IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;
- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of SPi Global;
- IP means internet protocol;
- ISP means internet service providers;
- Laguna Medical means Laguna Medical Systems, Inc., a wholly-owned subsidiary of SPi;
- Laserwords mean Laserwords Private Ltd., a wholly-owned subsidiary of SPi;
- LEC means local exchange carrier;
- LTIP means long-term incentive plan;
- Mabuhay Satellite means Mabuhay Satellite Corporation, a 67.0%-owned subsidiary of PLDT;
- Maratel means PLDT-Maratel, Inc., a 97.8%-owned subsidiary of PLDT;
- Meralco means Manila Electric Company;
- MPIC means Metro Pacific Investments Corporation, a subsidiary of First Pacific;
- MPRI means Metro Pacific Resources, Inc.;
- netGames means netGames, Inc., a 57.5%-owned subsidiary of ePLDT;
- NGN means Next Generation Network;
- NTC means the National Telecommunications Commission of the Philippines;
- NTT means Nippon Telegraph and Telephone Corporation;

- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;
- NTT DOCOMO means NTT DOCOMO, Inc., a majority-owned and publicly traded subsidiary of NTT;
- NTT-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;
- NYSE means New York Stock Exchange;
- PAPTTELCO means Philippine Association of Private Telephone Companies, Inc.;
- PCD means PCD Nominee Corporation;
- PCEV means PLDT Communications and Energy Ventures, Inc., (formerly known as Pilipino Telephone Corporation, or Piltel), a 99.5%-owned subsidiary of Smart;
- PDSI means Primeworld Digital Systems, Inc., a wholly-owned subsidiary of Smart;
- PFRS means Philippine Financial Reporting Standards;
- PGCI means Philippine Global Communications, Inc.;
- PHC means PH Communications Holdings Corporation, a wholly-owned subsidiary of Smart;
- Philcom means PLDT-Philcom, Inc., a wholly-owned subsidiary of PLDT;
- Philippine SEC means the Philippine Securities and Exchange Commission;
- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees' Benefit Plan;
- PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;
- PLP means PLDT Landline Plus;
- PSE means the Philippine Stock Exchange, Inc.;
- PTIC means Philippine Telecommunications Investment Corporation;
- SBI means Smart Broadband, Inc., a wholly-owned subsidiary of Smart;
- SHPL means Smarthub Pte. Ltd. (formerly SmartConnect Holdings Pte. Ltd.), a wholly-owned subsidiary of Smart;
- SGP means SmartConnect Global Pte. Ltd., a wholly-owned subsidiary of SHPL;
- SHI means Smarthub Inc., a wholly-owned subsidiary of Smart;
- SIM means subscriber identification module;
- Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;
- SMHC means Smart Money Holdings Corporation, a wholly-owned subsidiary of Smart;
- SMI means Smart Money, Inc., a wholly-owned subsidiary of SMHC;
- SMS means short messaging service;
- SNMI means Smart-NTT Multimedia, Inc., a wholly-owned subsidiary of PLDT;
- SPi CRM means SPi CRM Inc. (formerly ePLDT Ventus, Inc.), a wholly-owned subsidiary of SPi Global;
- SPi means SPi Technologies, Inc., a wholly-owned subsidiary of SPi Global;
- SPi Global means SPi Global Holdings, Inc., a wholly-owned subsidiary of PLDT;
- SPi Group means SPi and its subsidiaries;
- Springfield means Springfield Service Corporation, a wholly-owned subsidiary of SPi;

- SRC means the Securities Regulation Code of the Philippines;
- SRF means supervision and regulation fees;
- SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;
- TSC means the Technology Strategy Committee;
- U.S. SEC means the United States Securities and Exchange Commission;
- VAS means value-added service;
- VAT means value-added tax;
- VoIP means voice over internet protocol;
- WAP means wireless application protocol;
- WCI means Wireless Card, Inc., a wholly-owned subsidiary of Smart;
- W-CDMA means wideband-code division multiple access;
- WiMax means Worldwide Interoperability for Microwave Access; and
- Wolfpac means Wolfpac Mobile, Inc., a wholly-owned subsidiary of Smart.



## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Description of Business

#### Overview

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

We are the leading fixed line service provider in the Philippines accounting for approximately 65% of the total reported fixed line subscribers nationwide as at December 31, 2011. Smart is the leading cellular service provider in the country, and together with other PLDT Group cellular service providers, DMPI and CURE, account for approximately 68% of total reported cellular subscribers nationwide as at December 31, 2011. We have interests in the BPO sector, including the operation of our customer relationship management and knowledge processing solutions business.

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

We had a market capitalization of approximately Php545,097 million as at December 31, 2011, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues of Php156,603 million and net income attributable to equity holders of PLDT of Php31,697 million for the year ended December 31, 2011.

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

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JG Summit Holdings, or JGS, and certain other seller parties. The primary effects of the acquisition of the Digitel Group on our operating segments is the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand. See “– Subsidiaries – Fixed Line – Digitel”, *Note 4 – Operating Segment Information*, *Note 13 – Business Combinations – PLDT’s Acquisition of Digitel* and *Note 14 – Goodwill and Intangible Assets* to the accompanying consolidated financial statements in Item 7 for further information on the Digitel acquisition on PLDT and its businesses.

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the information and communications technology, or ICT, business group, which provides data center services, internet and online gaming services and business solutions and applications, and which was subsequently incorporated into our fixed line business; and (ii) the BPO business group, which covers customer relationship management or call center operations under SPi CRM; and content solutions, medical billing and coding and medical transcription services under SPi.

With our objective to grow the BPO business segment, and for ePLDT to focus on its core business of IT infrastructure and services, our Board of Directors approved on July 5, 2011 the spin off of SPi and SPi CRM from ePLDT and transfer the ownership of SPi Global to PLDT, and to place both SPi and SPi CRM under SPi Global. The reorganization was completed on December 6, 2011.

PCEV transferred its cellular business to Smart in August 2009 and acquired 223 million common shares, or about 20% equity interest, in Meralco in March 2010. PCEV subsequently transferred to Beacon in which PCEV acquired 50% equity interest effective March 31, 2010, 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment/holding company and reclassified PCEV from Wireless to Others business segment. See “— Recent Developments — Beacon’s Acquisition of Additional Meralco Shares” and *Note 10 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 7.

As at December 31, 2011, our chief operating decision maker views our business activities in four business units: Wireless, Fixed Line, BPO and Others, compared to three business units in 2010: Wireless, Fixed Line and ICT. The remaining ICT businesses, which did not form part of our BPO, were reclassified into our fixed line segment. We have retroactively implemented the above changes in our segment reporting and restated our comparative operating segment information accordingly.

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

## **Business Groups**

### ***Wireless***

We provide cellular and wireless broadband, satellite and other services through our wireless business, which contributed about 92% and 8% of our wireless service revenues, respectively, in 2011. In previous years, rapid growth in the cellular market has resulted in a change in our revenue composition, with cellular service becoming our largest revenue source, surpassing our fixed line revenues in 2003. Cellular data services, which include all text messaging and text-related services ranging from ordinary SMS to VAS, contributed significantly to our revenue increase. Our total wireless revenues accounted for 60% in 2011 and 61% of our total revenues for each of the years 2010 and 2009. Our cellular service revenues accounted for 90% of our total wireless revenues in 2011 as compared with 91% in each of the years 2010 and 2009.

Our cellular service, which accounted for about 92% of our wireless service revenues for the year ended December 31, 2011, is provided through Smart, CURE and DMPI with 63,696,629 subscribers as at December 31, 2011 representing a market share of approximately 68%. In 2011, the combined number of Smart, *Red Mobile* and *Sun Cellular* subscribers increased by 18,060,621, or 40%, to 63,696,629. The growth was mainly due to the inclusion of DMPI's prepaid and postpaid subscribers of 13,314,096 and 1,353,089, respectively, as at December 31, 2011 and a combination of organic subscriber growth and multiple SIM card ownership. The continued popularity of multiple SIM card ownership, together with unlimited voice offers, resulted in a decrease in our ARPU. Cellular penetration in the Philippines reached approximately 97% as at December 31, 2011, or approximately 28 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Approximately 97% and 91% of Smart's and *Sun Cellular's*, and nearly 100% of *Red Mobile's* subscribers as at December 31, 2011 were prepaid service subscribers and subscriber gains in 2011 were predominantly attributable to their respective prepaid services. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market, allowing us to increase and broaden our subscriber base rapidly and to enjoy fairly rich margin given that there are no handset subsidies extended, reduced billing and administrative costs on a per-subscriber basis, as well as to control credit risk.

Our cellular subscriber growth has also been driven by text messaging. Text messaging continues to be popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. While still a significant contributor to Smart's and *Red Mobile's* cellular data service volume growth in 2011, cellular data service revenues were stable year-on-year at Php47,235 million in 2011 from Php47,236 million in 2010, partially offset by the inclusion of DMPI's cellular data revenues of Php1,220 million for the period from October 26, 2011 to December 31, 2011.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz BTS in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. We have rolled out a 3G network based on a W-CDMA technology and are currently upgrading our wireless broadband facilities. With 14,879 cellular/mobile broadband base stations, including DMPI's 4,376 cellular/mobile broadband base stations as at December 31, 2011, our cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

DMPI transformed its transmission backbone network from a linear architecture to a ring topology, which allows for greater redundancy to ensure service reliability and quality. Additionally, DMPI has developed

an advanced 3G network that is currently operational in 19 provinces nationwide. We believe DMPI has developed an advanced network infrastructure that is highly efficient and can be easily scaled to accommodate increased subscriber base for its 2G and 3G business and increased network traffic from “unlimited” plans offered to subscribers of *Sun Cellular*.

### ***Fixed Line***

We are the leading provider of fixed line telecommunications services throughout the country, servicing retail, corporate and small medium enterprise, or SME, clients. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 2,166,295 fixed line subscribers as at December 31, 2011, an increase of 344,190 from the 1,822,105 fixed line subscribers as at December 31, 2010. The significant increase in fixed line subscribers was mainly due to the inclusion of Digitel’s fixed line subscribers of 296,395 as at December 31, 2011. Total revenues from our fixed line accounted for 35% of our total revenues for each of the years ended December 31, 2011, 2010 and 2009. National long distance revenues have been declining largely due to a drop in call volumes as a result of continued popularity of alternative means of communications such as texting, e-mailing and internet telephony. Partly mitigating these declines has been an increase in the revenue contribution of our data and other network services in recent years. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new packet-switched, data-capable and IP-based networks.

Our 10,050-kilometer long DFON is complemented by an extensive digital microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to remote areas. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country’s most extensive connections to international networks through two international gateway switching exchanges, satellite systems and various regional submarine cable systems in which we have interests.

See “– Infrastructure – Fixed Line Network Infrastructure” for further information on our fixed line infrastructure.

### ***Business Process Outsourcing***

We provide knowledge processing solutions through SPi, and its subsidiaries, or SPi Group and customer relationship management through SPi CRM. The BPO segment accounted for 5% of our revenues in each of the years 2011, 2010 and 2009.

### ***Others***

Others consisting principally of PCEV, an investment holding company which has an interest in Meralco shares through its interest in Beacon’s outstanding common shares and preferred stock.

### **Historical Background**

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT’s corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT’s incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTTC-UK, became PLDT’s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications’ investment in PLDT, the latter acquired 100% of Smart. On March 14, 2006, NTT DOCOMO acquired from NTT Communications approximately 7% of PLDT’s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT’s common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT’s outstanding common

stock as at December 31, 2010. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised the First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's shares of common stock as at that date. Since then, First Pacific Group and its Philippine affiliates' beneficial ownership in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2011. See Item 11. "Security Ownership of Certain Beneficial Owners, Directors and Key Officers" for further discussion.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JG Summit Holdings, Inc., or JGS, and certain other seller-parties. As payment for the assets acquired from JGS, PLDT issued approximately 27.7 million common shares. In November 2011, JGS sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGS had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at February 29, 2012, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO, together with NTT Communications Capital (UK) Ltd.) owned approximately 8%, 26% and 20% of PLDT's outstanding common shares, respectively. See *Note 13 – Business Combinations – PLDT's Acquisition of Digitel* to the accompanying consolidated financial statements in Item 7 for further discussion.

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

## **Recent Developments**

### ***Conversion of Acquired Securities and Mandatory Tender Offer in connection with the Digitel Acquisition***

As a result of PLDT's acquisition of a controlling interest in Digitel, we were required under the SRC to conduct a mandatory tender offer for all the remaining outstanding shares of common stock of Digitel on substantially the same terms as the acquisition of Digitel shares from JGS. On December 5, 2011, we filed the tender offer report on Philippine SEC Form 19.1, setting forth the terms of the mandatory tender offer, which consisted of an offer to purchase all remaining outstanding shares of Digitel at a consideration of Php1.6033 per Digitel share, payable in our common shares based on one new common share for every Php2,500 in consideration payable, equivalent to one new common share for every 1,559.28 Digitel shares, or in cash, at the option of noncontrolling Digitel shareholders, except for tendering shareholders residing outside the Philippines, who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012 with a total of 2,888 million Digitel shares tendered.

From February 1 to March 22, 2012, PLDT purchased from the open market 72.3 million common shares of Digitel. PLDT also exercised its conversion rights on December 8, 2011 and February 7, 2012 to convert and exchange certain of the zero coupon securities acquired from JGS and certain other seller-parties in the Digitel acquisition into Digitel shares. As a result of the tender offer, open market acquisitions, and conversions and exchanges described above, we held 99.5% of the outstanding capital of Digitel as at March 22, 2012.

On January 25, 2012, Digitel filed for voluntary delisting of its shares with the PSE, since its public ownership level has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and accordingly ordered the delisting of the shares of Digitel from the Official

Registry of the PSE effective March 26, 2012. Subject to the payment of the required voluntary delisting fee, Digitel shares shall no longer be tradable on the PSE effective March 26, 2012.

#### ***PLDT's Listing of Additional Common Shares***

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel, see *Note 13 – Business Combinations – PLDT's Acquisition of Digitel* to the accompanying consolidated financial statements in Item 7 for further discussion.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

#### ***Redemption of Preferred Shares***

On September 23, 2011, the Board of Directors approved the redemption of all outstanding shares of PLDT's 10% Cumulative Convertible Preferred Stock Series A to FF, which were issued pursuant to the PLDT Subscriber Investment Plan, or SIP, or the SIP Preferred Shares, and all such shares were redeemed and retired effective January 19, 2012.

PLDT has set aside Php5.8 billion, the amount required to fund the redemption price for the SIP Preferred Shares, in a trust account in the name of Rizal Commercial Banking Corporation, as trustee. Pursuant to the terms of the trust account, the trustee will continue to hold in trust, for the benefit of those holders of SIP Preferred Shares who have failed to claim their redemption price for a period of 10 years from the redemption date or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on such redemption trust fund will accrue for the benefit of, and be paid from time to time to, PLDT.

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock were redeemed and retired effective January 19, 2012. A total amount of Php125 million was withdrawn from the Trust Account, representing total payments in redemption as at March 22, 2012.

PLDT expects to similarly redeem outstanding shares of 10% Cumulative Convertible Preferred Stock Series GG to II as and when they become eligible for redemption.

See *Note 19 – Equity* to the accompanying consolidated financial statements in Item 7 for further details.

#### ***Beacon's Acquisition of Additional Meralco Shares***

In January 2012, Beacon acquired 30 million Meralco common shares from FPUC, representing approximately 3% beneficial ownership in Meralco at a nominal value of Php295 per share, thereby increasing Beacon's beneficial ownership in Meralco to 48%. FPUC will retain certain property dividends that may be declared on such shares.

#### **Strategy**

The key elements of our business strategy are:

- *Build on our leading positions in the fixed line and wireless businesses.* We plan to continue building on our position as the leading fixed line and wireless service providers in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost and to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. We are also modernizing our fixed line, cellular and mobile broadband networks, not only to achieve operating and cost efficiencies, but also to lay the foundation for future technological advances.

- *Capitalize on our strength as an integrated provider of telecommunications services.* We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless, BPO and other services utilizing our network and business platforms.
- *Strengthen our leading position in the data and broadband market.* Leveraging on the inherent strengths of our fixed line and wireless businesses, we are committed to further develop our fastest growing business – broadband, data and other network services. Consistent with our strategy of introducing innovative products and services using advanced technology, we continue to launch various products and services in the data and broadband market that deliver quality of experience according to different market needs.
- *Maintain a strong financial position and improve shareholder returns.* In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction and capital expenditures. As the cash flows generated by our businesses have increased and our leverage ratios have improved, we have been able to restore the payment of cash dividends to our common shareholders beginning 2005 and were able to declare dividend payouts of approximately 100% for five consecutive years in each of 2007, 2008, 2009, 2010 and 2011 of our core earnings. We plan to continue utilizing our free cash flows for the payment of cash dividends to common shareholders and investments in new growth areas. As part of our growth strategy, we have made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in telecommunications as well as telco-related businesses such as those in the global outsourcing and off-shoring industry.

## **Subsidiaries**

As part of our competitive and overall development strategy, we have made strategic acquisitions and investments to further enhance our ability to provide not only basic telephony but also a wide range of value-added and enhanced services, as well as advanced and bundled services.

### **Wireless**

#### *Smart*

In March 2000, PLDT acquired Smart in an all-stock transaction. Smart, currently the market leader in the cellular business, was acquired to further strengthen the PLDT Group's market leadership in the telecommunications sector. Combined with PLDT's existing fixed line business, the investment resulted to revenue-generating enhancements as well as cost efficiencies for the PLDT Group.

#### *Transfer of PCEV's Cellular Mobile Telephone Business/Asset to Smart*

On June 30, 2009, PCEV's stockholders approved the sale and transfer of PCEV's cellular mobile telephone business/assets to Smart through a series of transactions, which included: (a) the assignment of PCEV's *Talk 'N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of PCEV's existing *Talk 'N Text* subscriber base to Smart in consideration of the rate of Php73 per subscriber, which is equivalent to Smart's average acquisition cost per subscriber in 2008 for its *Smart Prepaid* subscribers representing Php1,213 million in the aggregate; and (c) the sale of PCEV's GSM fixed assets to Smart at net book value. As a result, the cellular mobile telephone business has been consolidated under Smart in order to maximize revenue streams and eliminate any potential regulatory issues relating to the traffic between PCEV and Smart. The NTC approved the request for the sale and transfer of PCEV's subscribers to Smart submitted on July 8, 2009 and the transfer of PCEV's cellular mobile telephone business and assets to Smart completed on August 17, 2009.

#### *Smart's Acquisition of PDSI*

In May and October 2009, Smart acquired an aggregate of approximately 84 million shares, representing the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. The acquisition was completed on two dates: (a) the first closing took place on May 14, 2009 and involved the

acquisition of approximately 34 million shares representing 40% of the issued and outstanding shares of PDSI for a consideration of Php632 million; and (b) the second closing took place on October 2, 2009 and involved the acquisition of the remaining approximately 50 million shares representing 60% of the issued and outstanding shares of PDSI for a consideration of Php937 million.

#### *Smart's Acquisition of Chikka*

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka, a mobile applications development and services company, for a total consideration of US\$13.5 million, or Php629 million, of which US\$12.1 million, or Php564 million, was paid in cash on December 18, 2009 and the balance of US\$1.4 million, or Php65 million, was paid on September 27, 2010 upon completion of the post closing provisions.

#### *Investment by Smart in BOW and subsequent sale of BOW*

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW to approximately 1.2 million shares representing 51.0% of the total issued and outstanding shares of BOW from 381 thousand shares, or 28.3%. The cost of the additional investment in BOW amounted to US\$6 million, or Php301 million, for 782 thousand shares, or US\$8 per share, of which US\$4 million, or Php182 million, was paid in cash and US\$2 million, or Php119 million, was offset against net payables by BOW to Smart.

In June 2011, the management and operations of BOW was transferred from SHPL to Stratos BV, a third party. Consequently, SHPL ceased to recognize BOW as its subsidiary.

#### *Divestment of CURE*

On October 26, 2011, Smart was directed by PLDT to divest CURE, its wholly-owned subsidiary, as one of the conditions to the NTC's approval of the acquisition of Digitel by PLDT. CURE was granted the right to use the 10 MHz of 3G frequency bandwidth in the 1955-1965 to 1955-2155 MHz spectrum, or the Affected Frequency, and operates the wireless business under the *Red Mobile* brand.

The NTC also approved in October 2011 the divestment plan presented by PLDT, which covers the following commitments:

- CURE will sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets. There will be a nine-month transition period reckoned from the date of promulgation of the Decision to effect this first requirement; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, the Affected Frequency and related permits. The divestment sale will be conducted within six months after the end of the nine-month transition period and will be made under the supervision and control of the NTC.

The Divestment Sale will be made under the supervision and control of the NTC and will be effected through a competitive bidding among duly enfranchised and qualified public telecommunication entities. A minimum price will be prescribed to allow Smart to recover its investment in acquiring, developing and operating CURE, or the Cost Recovery Amount. In the event that the actual proceeds from the Divestment Sale exceed the Cost Recovery Amount, PLDT will pay the NTC, as fee for supervising the Divestment Sale, at least 50% of such excess less government fees and taxes payable as a consequence of the Divestment Sale.

The divestment of CURE related franchise and licenses qualifies as noncurrent assets held-for-sale but was no longer presented separately in our consolidated statement of financial position as the carrying amounts are not material.

## *DMPI*

In September 2001, Digitel established its wholly-owned subsidiary, DMPI, to provide wireless telecommunications services in the country. DMPI has operated its wireless services under the *Sun Cellular* brand since March 29, 2003. In relation to our acquisition of the Digitel Group, we agreed with the NTC that we will maintain *Sun Cellular* as a separate brand which will continue to offer unlimited services.

For further discussion on PLDT's acquisition of Digitel, see – Recent Developments and *Note 13 – Business Combinations* to the accompanying consolidated financial statements in Item 7.

## *ACeS Philippines*

ACeS Philippines currently owns approximately 36.99% of AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. For further discussion regarding the ATPA, please see *Note 27 – Financial Assets and Liabilities* and *Note 24 – Related Party Transactions* to the accompanying consolidated financial statements in Item 7.

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

## *Fixed Line*

### *Digitel*

Digitel was established on August 31, 1987 and is engaged to provide wireline services in the country. It offered the latest in GSM technology, provisioning voice services (local, national, international calling), messaging services (short text or multi-messaging), outbound and inbound international roaming, and VAS using *Sun Cellular's* navigational menu called The Mall.

On March 29, 2011, we entered into definitive agreements with JGS and certain other seller-parties to acquire a controlling interest in Digitel, or the Digitel acquisition. Digitel is an operator of fixed line and wireless telecommunications network in the Philippines, including mobile phone operations under the *Sun Cellular* brand name. Pursuant to the agreements, we agreed to acquire Digitel securities and loans consisting of: (i) 3.28 billion common shares of Digitel, or Digitel shares, representing approximately 51.6% of the issued common stock of Digitel at the time of acquisition; (ii) zero coupon convertible or exchangeable bonds issued by Digitel and its subsidiaries that are convertible or exchangeable into Digitel shares; and (iii) certain intercompany advances made by JGS to Digitel, all for a total consideration of Php69.2 billion, payable in newly issued PLDT common shares on the basis of one new common share for every Php2,500 in consideration payable, resulting in approximately 27.7 million of our common shares being issuable to JGS and certain other seller-parties. The common shares issued by PLDT in connection with Digitel acquisition are subject to a one-year lockup period, during which JGS and certain other seller-parties may not transfer or otherwise encumber these shares without our prior consent.

The consummation of the transaction was subject to the procurement by us of certain regulatory approvals, which were obtained on October 26, 2011, on the same date we completed the Digitel acquisition and began consolidating the results of operations of Digitel in our financial statements.

For further discussion on PLDT's acquisition of Digitel, see – Recent Developments and *Note 13 – Business Combinations* to the accompanying consolidated financial statements in Item 7.

### *ClarkTel*

ClarkTel was incorporated on January 28, 1997. It was previously a joint venture between PLDT, owning 60%, and Clark Development Corporation, or CDC, holding the remaining 40%. In August 1999, CDC



ceded its 40% ownership interest in ClarkTel to PLDT, thus, making ClarkTel a wholly-owned subsidiary of PLDT. ClarkTel provides basic and enhanced telecommunications services within the Clark Special Economic Zone, or CSEZ, in Clark Field, Pampanga, and between the CSEZ and other cities and municipalities in the country as well as other countries and territories worldwide.

#### *Maratel*

In June 2001, PLDT acquired 2,439,060 common shares of Maratel, representing 92.3% of Maratel's issued and outstanding common stock, for a total consideration of Php451.3 million. In 2003, PLDT acquired an additional 134,237 common shares of Maratel for a consideration of Php1.3 million, thereby increasing PLDT's ownership interest in Maratel to 97.5%. Additional shares acquisition in 2006 and 2007 further increased PLDT's ownership in Maratel to 97.8%. Maratel, incorporated on August 10, 1951, is a franchised operator of telecommunications services in the province of Lanao del Norte and the cities of Iligan and Marawi. The acquisition of a controlling interest in Maratel has improved PLDT's existing coverage in Mindanao and strengthened its competitive position in the southern part of the country.

#### *SubicTel*

In June 1994, PLDT entered into a joint venture agreement with AT&T and the Subic Bay Metropolitan Authority, or SBMA, to form SubicTel. In November 1999, PLDT acquired SBMA's 20% ownership interest in SubicTel for a purchase price of Php180 million, increasing PLDT's stake in SubicTel from 40% to 60%. On February 16, 2001, PLDT also acquired AT&T's 40% stake in SubicTel for a consideration of US\$8 million. Consequently, SubicTel became a wholly-owned subsidiary of PLDT. SubicTel, incorporated on September 28, 1994, is now operating a state-of-the-art telecommunications system at the Subic Special Economic and Freeport Zone, a former U.S. naval base that is now home to various multinational companies.

#### *SNMI*

On March 24, 2000, PLDT entered into a Stock Purchase Agreement with NTT Communications to purchase NTT Communications' 40% ownership interest in SNMI. This stock purchase transaction was consummated on April 25, 2000. Subsequently, PLDT also acquired Smart's 60% interest in SNMI, which became a wholly-owned subsidiary of PLDT upon completion of this transaction on August 14, 2000. SNMI, incorporated on April 29, 1997, was engaged in providing customized integrated telecommunications solutions to high-volume corporate users. SNMI's Board of Directors and stockholders approved the indefinite suspension of its business operations effective March 31, 2003. SNMI's operations were absorbed by the corporate business group of PLDT.

#### *BCC*

In 2002 and 2003, PLDT entered into a separate Deed of Assignment of Subscription with Smart and Fort Bonifacio Development Corporation, or FBDC, where Smart and FBDC assigned, transferred and conveyed in favor of PLDT their total subscription to 750,000 common shares and 750,000 preferred shares of BCC and all their interest and rights therein for a total consideration of Php93 million. The assignment included a subscription payable of Php68 million. The shares represent 75% of the subscribed capital stock of BCC.

BCC was incorporated primarily to own, construct, establish, maintain, lease and otherwise operate, to the extent allowed by law, communication infrastructure and to provide related services, including but not limited to, VAS, within the Fort Bonifacio Global City and Villamor Air Base.

#### *PLDT Global*

PLDT Global, a wholly-owned subsidiary, was incorporated on December 15, 2000 in the British Virgin Islands, to position PLDT as a full service global telecommunications player through a strategy of establishing presence in key countries with substantial Overseas Filipino Professionals or Workers. The following are the subsidiaries of PLDT Global:

- *PLDT (HK) Limited* is an External Fixed Telecommunications Network Services and Public Non-Exclusive Telecommunications Service license holder that offers wholesale termination, remittance, mobile virtual network operations, and enterprise solutions. *PLDT 1528 Limited* is the retail arm and wholly-owned subsidiary of PLDT (HK) Limited;

- *PLDT (SG) Pte Limited* is a licensed service-based operator that provides wholesale voice services in Singapore. Its wholly-owned subsidiary, *PLDT (SG) Retail Service Pte Limited*, is a licensed Mobile Virtual Network Operator that offers prepaid mobile services in Singapore;
- *PLDT (US) Limited* is a licensed international common carrier that provides a range of Private Line solutions to its enterprise customers;
- *PLDT Online, Inc.* is incorporated in the British Virgin Islands and specializes in selling wholesale and retail products and services through an online portal;
- *PLDT (UK) Limited* is a licensed public telephone carrier that specializes in registered home accounts and enterprise solutions; and
- *PLDT (MY) Malaysia Sdn. Bhd.* is a licensed applications service provider in Malaysia. It is 51%-owned by PLDT Global and 49%-owned by Celcom Axiata Berhad. *PLDT MY* is a mobile virtual network operator which offers prepaid mobile retail products in Malaysia under the brand name *Smart Pinoy*.

#### *Philcom*

On January 2, 2009, PLDT signed a Debt Assignment Agreement with PremierGlobal Resources Corporation, or PGR, wherein PGR sold to PLDT, for a total consideration of Php340 million, all of the outstanding obligations of Philcom to suppliers, banks and other financial institutions, or the Philcom Lenders, which PGR had acquired from the Philcom Lenders.

On January 3, 2009, PLDT signed a Share Assignment Agreement with PGCi wherein the latter sold, transferred and conveyed in favor of PLDT its rights, title and interest in and to all of the outstanding shares of common stock in Philcom for a total consideration of Php75 million. The parties have filed the necessary application/petition for the approval of this transaction by the NTC.

The acquisition of Philcom allowed the PLDT Group to broaden its presence in Mindanao, where it already has operations carried out under Maratel and SBI. This expanded presence is expected to benefit not only the existing subscribers in the area, but will also provide the communities in the area with an opportunity to access improved telecommunications facilities.

#### *ePLDT*

ePLDT is engaged in information and communications technology businesses, focusing on enabling infrastructure and services for internet applications, IP-based solutions and multimedia content delivery.

ePLDT operates an internet data center under the brand name *Vitro™*. Granted by the Philippine Board of Investments pioneer status as an Internet Data Center, *Vitro™* provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and web-hosting, shared applications, data disaster recovery and business continuity services, intrusion detection and IP security services such as firewalls and managed firewalls.

On August 24, 2011, ePLDT acquired an additional 17% of the equity interest of ePDS from Quantum Solutions International Pte. Ltd., resulting in ePLDT's equity interest in ePDS increasing from 50% to 67%. See *Note 10 – Investment in Associates and Joint Ventures* and *Note 13 – Business Combinations – PLDT's Acquisition of ePDS* to the accompanying consolidated financial statements in Item 7 for further discussion.

ePLDT also currently holds equity interests in the following entities:

- a 100% interest in mySecureSign, Inc., a principal affiliate of VeriSign, Inc., which is the largest certification authority and issuer of digital certificates worldwide;
- a 100% interest in iPlus Intelligent Network, Inc., which provides technical and managed support services;

- a 93.5% equity interest in BayanTrade, an e-procurement joint venture established together with six of the Philippines' leading conglomerates. BayanTrade is also engaged in license sale, licenses maintenance, consulting service, application support, BPO agent revenue, eProcurement services, eSourcing services and training; and
- a 26.4% equity interest in Philweb, a company primarily engaged in internet-based gaming and appointed as Principal Technology Service Provider under an agreement with the Philippine Amusement and Gaming Corporation.

ePLDT disposed its 75% interest in Digital Paradise, a provider of internet access services, on April 1, 2011, and its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011.

### ***Business Process Outsourcing***

#### *SPi*

SPi is engaged in providing knowledge processing solutions which was acquired on July 11, 2006 and SPi's direct and indirect Philippine and offshore subsidiaries. SPi's services include editorial and content production, digital content conversion, pre-press project management, litigation support and conversion of medical records/data from handwritten or speech format to electronic format. On August 11, 2006 and April 12, 2007, SPi, through a wholly-owned U.S. subsidiary, acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia U.S.A and 100% of Springfield, one of the largest players in the medical billing and revenue cycle management market, respectively.

SPi is focused on developing its customer relationship management provided by SPi CRM, which capitalize on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. SPi CRM provides offshore contact center outsourcing solutions specializing in inbound customer care; customer and technical support to its clients in the Philippines, U.S. and U.K.; and exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States.

On August 31, 2009, SPi (through SPi-America, a wholly-owned U.S. subsidiary of SPi) signed a Stock Purchase Agreement with Laguna Medical, a California Corporation, and its various sellers, to purchase 80% of the issued and outstanding common shares of Laguna Medical for a cash consideration of US\$6.6 million, or Php313 million. Simultaneous with the agreement to acquire the 80% equity interest of Laguna Medical, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation, in respect of the remaining 20% of the outstanding common stock of Laguna Medical held by Laguna Medical LLC. Under said Put-Call Agreement, commencing on July 1, 2011, Laguna Medical LLC granted SPi the exclusive right to purchase the remaining Laguna Medical shares (call right) while SPi granted Laguna Medical LLC the exclusive right to sell the remaining Laguna Medical shares (put right) to SPi. Based on our evaluation of the mandatory Put-Call option, SPi has present access to the economic benefits associated with the ownership interest in Laguna Medical, hence, control over the 20% interest has already been in the possession of SPi since August 31, 2009. As a result, the effective ownership interest of Laguna Medical acquired by SPi on August 31, 2009 was 100%. The acquisition cost for the remaining 20% of the outstanding common stock of Laguna Medical is equivalent to the base price of US\$2 million plus the change in Laguna Medical EBITDA from the date of acquisition to April 30, 2011 multiplied by applicable performance factors specified in the agreement. The contingent liability recognized in relation to the acquisition of the 20% interest was paid in full in July 2011.

On September 26, 2011, SPi and SPi America Holdings, a wholly-owned subsidiary of SPi, signed an Asset Purchase Agreement, or APA, with Acusis, LLC, a global provider of outsourced clinical documentation solutions based in Pittsburg, Pennsylvania, USA, for the sale of all assets and rights of every type and description which are related to or are used in the medical transcription business for a total consideration of US\$2.8 million, or Php121 million, subject to the terms and conditions specified in the APA. The sale generated a net gain of US\$2 million, or Php89 million.

On November 1, 2011, SPi acquired through SPi Technologies India Private Ltd., a wholly-owned subsidiary of SPi, a 100% equity interest in Laserwords for a total cash consideration of US\$23 million, or Php1,030 million. Laserwords is one of the oldest and most successful outsourcing partners for global media and

publishing companies, with production facilities spread over Chennai-India, Lewiston-Maine, Madison-Wisconsin, and a separate facility offering publishing services in New York City.

For more information on investments, see *Note 2 – Summary of Significant Accounting Policies*, *Note 10 – Investments in Associates and Joint Ventures*, *Note 13 – Business Combinations* and *Note 14 – Goodwill and Intangible Assets* to the accompanying consolidated financial statements in Item 7.

### **Others**

#### *PCEV's Investment in Beacon*

On March 12, 2009, FPHC, FPUC, and Lopez, Inc., (collectively, the Lopez Group) and PLDT entered into an investment and cooperation agreement under which: (a) PLDT acquired, through PCEV as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20,070 million, or Php90 per share; and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its assignee to nominate certain senior management officers and members of the board of directors and board committees of Meralco. On March 1, 2010, PCEV, MPIC and Beacon entered into an Omnibus Agreement, or OA. Beacon was organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity shares in Meralco.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon. On March 30, 2010, the investment in Meralco by PCEV was reduced by Php15,083 million, the proportionate carrying amount of 154.2 million Meralco shares sold and transferred to Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock entitled to liquidation preference and yearly cumulative dividends at the rate of 7% for a subscription price of Php10 per share or a total of Php8,010 million. The subscriptions of MPIC and PCEV were completed on March 30, 2010 and May 12, 2010, respectively, by the offset in full (in the case of PCEV) and in part (in the case of MPIC) of the subscription price by the transfer of Meralco shares held by PCEV and MPIC consisting of 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Beacon also exercised a Call Option on March 30, 2010 to acquire 74.7 million Meralco shares from FPHC in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

On October 25, 2011, PCEV transferred to Beacon its remaining 68.8 million Meralco shares for a total cash consideration of Php15,136 million. PCEV and Beacon entered into a Subscription Agreement on October 20, 2011 for 1,199 million Beacon preferred shares entitled to a liquidation preference and cumulative annual dividends of 7% for the same amount in cash.

PCEV and Beacon entered into a subscription agreement on January 20, 2012 for 135 million Beacon common shares for a cash consideration of Php2,700 million to fund Beacon's acquisition of additional 30 million Meralco shares from FPUC. MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

On various dates in 2011, Beacon acquired from the market additional 49.9 million Meralco common shares or an equivalent of approximately 4.5% beneficial ownership in Meralco at an aggregate nominal value of Php14,310 million.

As at December 31, 2011, PCEV held 1,156 million Beacon common shares representing 50% of the outstanding Beacon common shares and 1,199 million shares of Beacon preferred stock with aggregate carrying value amounting to Php6,991 million, which was presented as part of available-for-sale financial assets in our consolidated statement of financial position as at December 31, 2011. As at December 31, 2011, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of Php104,092 million and market value of Php126,379 million based on quoted

price of Php247 per share. PLDT, through PCEV, has approximately 22.7% indirect interest in Meralco through PCEV's investment in Beacon as at December 31, 2011.

See *Note 10 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 7 in for further information on the acquisition of Meralco shares and the transfer of PCEV's equity interest in Meralco.

#### *Smart's Acquisition of Noncontrolling Interests in PCEV*

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, which was paid in cash on August 12, 2009, from PCEV's non-controlling shareholders up to approximately 840 million shares representing 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report with the Philippine SEC and the PSE on June 23, 2009 pursuant to Section 19 of the SRC. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of PCEV's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stocks of PCEV. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of noncontrolling interests acquired of Php5,479 million presented as part of capital in excess of par value account in our consolidated statement of financial position.

#### *Repurchase of PCEV's Common Stock held by noncontrolling shareholders*

PCEV's Board of Directors approved three share buyback programs during its meetings on November 3, 2008, March 2, 2009 and August 3, 2009. For all three programs, the buyback was done through the trading facilities of the PSE through open market purchases, block trades or other modes, subject to compliance with applicable laws, rules and regulations. The number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3, 2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. PCEV repurchased 2.8 million shares at a total cost of Php23 million in 2009 and 0.8 million shares at a total cost of Php7 million in 2010 under the program approved on August 3, 2009. As at December 31, 2011 and 2010, cumulative shares repurchased under the share buyback programs totaled 86.6 million at an aggregate cost of Php621 million.

The share buyback was accounted for as acquisition of noncontrolling interest and therefore an equity transaction wherein the difference between the consideration paid and proportionate carrying value is recognized as an adjustment to capital in excess of par.

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps as necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to purchase the shares owned by the remaining minority shareholders representing 0.49% of the outstanding common stock of PCEV. Smart filed a Tender Offer Statement with the Philippine SEC on March 15, 2012. The tender offer commenced on March 19, 2012 and will end on April 18, 2012. PCEV, on the other hand, filed with the PSE its petition for voluntary delisting on March 19, 2012.

The program approved on August 3, 2009 was terminated by PCEV's Board of Directors on March 5, 2012 in anticipation of the tender offer by Smart to PCEV's remaining minority shareholders.

See *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 7 for further discussion of Smart's Acquisition of Noncontrolling Interests in PCEV and Repurchase of PCEV's Common Stock held by minority shareholders.

## Products and Services, Rates and Revenues

### Wireless

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

#### Cellular Service

##### Overview

Our cellular business, which we provide through Smart, CURE and DMPI to over 63 million subscribers as at December 31, 2011, approximately 97% of whom are prepaid subscribers, focuses on providing wireless voice communications, wireless data communications (primarily through text messaging, but also through a variety of VAS and mobile broadband). As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE's *Red Mobile* subscriber base to Smart.

The following table summarizes key measures of Smart's, CURE's and Digitel's cellular business as at and for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
Systemwide cellular subscriber base	63,696,629	45,636,008	41,328,641
Prepaid	61,792,792	45,214,433	40,893,098
<i>Smart Prepaid</i>	26,573,137	25,293,443	23,762,814
<i>Talk 'N Text</i>	20,467,175	18,967,381	17,050,713
<i>Red Mobile</i> <sup>(3)</sup>	1,438,384	953,609	79,571
<i>Sun Cellular</i>	13,314,096	–	–
Postpaid	1,903,837	421,575	435,543
<i>Smart</i>	550,485	421,575	435,543
<i>Red Mobile</i> <sup>(4)</sup>	263	–	–
<i>Sun Cellular</i>	1,353,089	–	–
Growth rate of cellular subscribers			
Prepaid			
<i>Smart Prepaid</i>	5%	6%	16%
<i>Talk 'N Text</i>	8%	11%	19%
<i>Red Mobile</i>	51%	1,098%	386%
Postpaid			
<i>Smart</i>	31%	(3%)	9%
<i>Red Mobile</i> <sup>(4)</sup>	100%	–	–
Cellular revenues (in millions) <sup>(2)</sup>	Php93,645	Php95,520	Php98,145
Voice <sup>(2)</sup>	43,885	45,678	43,642
Data <sup>(2)</sup>	47,235	47,236	52,031
Others <sup>(5)</sup>	2,525	2,606	2,472
Percentage of cellular revenues to total wireless service revenues	92%	92%	92%
Percentage of cellular revenues to total service revenues	55%	56%	56%

<sup>(1)</sup> Includes DMPI's revenues and cellular subscribers as at and for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> *Red Mobile* prepaid was launched in November 2008 by CURE.

<sup>(4)</sup> *Red Mobile* postpaid was launched on March 17, 2011 by CURE.

<sup>(5)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fee, share in revenues from PLDT's *WeRoam* and *PLP* services, a small number of leased line contracts, and revenues from *Chikka*, *Wolfpac* and other Smart subsidiaries.

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

Smart, together with *Talk 'N Text*, *Red Mobile* and *Sun Cellular*, have focused on segmenting the market by offering sector-specific, value-driven packages for its subscribers. These include load buckets which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls

of preset duration. Starting out as within network packages, Smart's buckets now also offer voice, text and hybrid bundles available to all networks. Smart also provides packages with unlimited voice, text, data, and combinations thereof, whose denominations depend on the duration and nature of the unlimited packages.

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

Smart's most recent innovation is the *Trio 20*, a cellular service package to integrate the existing services provided by Smart and DMPI, which for only Php20, subscribers can send 200 texts and make 15 minutes of calls to other Smart, *Talk 'N Text* and *Sun Cellular* prepaid subscribers valid for 1 day.

*Red Mobile* introduced its unlimited voice and SMS offering in 2010 utilizing a secondary network powered by Smart. *Red Mobile Unlimited* offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited call and text to all Smart subscribers.

Smart also offers the *Smart Unli Postpaid Plan* which is available in three variants: Unli postpaid 299 which offers unlimited text to any subscriber on the Smart network, Dual Plan 549 which offers unlimited text with two hours of calls to any subscriber on the Smart network and unlimited text with four hours of calls to any subscriber on the *Sun Cellular* network, and Unli postpaid 599 which offers unlimited call and text to any subscriber on the Smart network.

*Sun Cellular* offers its *Call and Text Unlimited* products, which allow subscribers to enjoy 24 hours of Sun-to-Sun voice calls and texts for as low as Php25 per day. *Sun Cellular's Text Unlimited* products offer unlimited Sun-to-Sun SMS with free voice calls for as low as Php10 per day.

*Sun Cellular* postpaid plans offer a variety of services to cater to subscribers with different needs and provide innovative services at affordable prices.

*Voice Services.* Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remain a significant contributor to wireless revenues, generating a total of Php43,885 million, Php45,678 million and Php43,642 million, or 47%, 48% and 44% of cellular service revenues in 2011, 2010 and 2009, respectively. Local calls continue to dominate outbound traffic constituting 89% of all our cellular minutes. Domestic inbound and outbound calls totaled 38,166 million minutes in 2011, an increase of 14,379 million minutes, or 60%, as compared with 23,787 million minutes in 2010, due to increased usage resulting from unlimited voice offerings and the inclusion of DMPI's domestic voice traffic for the period from October 26, 2011 to December 31, 2011. International inbound and outbound calls totaled 3,085 million minutes in 2011, an increase of 59 million minutes, or 2%, as compared with 3,026 million minutes in 2010, mainly due to an increase in cellular subscriber base and the inclusion of DMPI's international call traffic for the period from October 26, 2011 to December 31, 2011. The ratio of inbound-to-outbound international long distance minutes was 12.8:1 for 2011.

*Data Services.* Cellular revenues from data services include all text messaging-related services, as well as, VAS and wireless broadband.

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

Despite the strong volume growth in text messaging and the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011, our cellular revenues from this service decreased by Php896 million, or 2%, to Php43,708 million in 2011 from Php44,604 million in 2010, resulting mainly from the declining SMS yields as a result of aggressive SMS pricing offers, the continued popularity of alternative means of communication through social media sites and increases in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS. In 2011, Smart's and DMPI's text messaging system handled 17,793 million outbound messages on standard SMS services and 322,588 million messages generated by bucket-priced text services.

In 2011, approximately 50% of our cellular revenues were derived from data usage compared to 49% in 2010 mainly due to an increase in VAS revenues and the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011, partially offset by lower text messaging revenues.

Smart offers the following VAS:

- *internet-based* includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs. Uzzap is an IP-based messaging service that allows instant messaging, email, SMS, group messages, chatting, etc.;
- *Pasa Load/Give-a-load* includes revenues from *Pasa Load* and Dial\*SOS, net of allocated discounts. *Pasa Load/Give-a-load* is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial\*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up;
- *SMS-based* includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs; and
- *MMS-based* includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

*Smart Unli Data Plan* offers unlimited internet browsing on postpaid basis, best suited for subscribers with high data usage. Bundled with the latest handsets, and with free texts and calls, subscribers may choose among the following packages: *Plan1500*, *Plan2000*, *Plan3000* and *Plan4000* with monthly costs based on the numerical denomination of the package.

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for text-based informational and e-commerce services. There is a potential growth in mobile internet browsing as a result of the popularity of social networking and the affordability of smartphones. Our current approach is to continue maximizing our GSM, or 2G, network services while upgrading our network to Enhanced Data for GSM Evolution, or EDGE and 3G in anticipation for the growth in mobile internet browsing in order to provide quality of experience to our subscribers.

#### *Wolfpac*

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

#### *Chikka*

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

#### *Rates*

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

*Smart Prepaid* and *Talk 'N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of our "over-the-air" electronic loading facility *Smart Load* made reloading of air time credits more convenient and accessible for consumers. *Smart Load's* over-the-air reloads have evolved to respond to market needs and now



come in various denominations ranging from Php10 to Php1,000 with corresponding expiration periods. The introduction of our “over-the-air” *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or “bucket” packages as a means of driving subscriber activations and stimulating usage. These bucket packages, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be popular with subscribers. Smart also offers unlimited voice and text packages under its various brands in order to be competitive and maintain industry leadership. Both bucket packages, and unlimited voice and text packages account for 34% of our cellular service revenues in 2011.

*Smart Prepaid* subscribers are charged Php6.50 per minute for calls to *Smart Prepaid* and *Talk ‘N Text* subscribers and Php7.50 per minute terminating to other cellular or fixed line networks. *Talk ‘N Text* calls to *Talk ‘N Text* subscribers are charged Php5.50 per minute while calls to *Smart Prepaid* and other cellular fixed line subscribers are charged Php6.50 per minute. *Red Mobile* subscribers’ calls to other *Red Mobile* subscribers are charged at Php0.50 per minute. Calls to *Smart Prepaid* and *Talk ‘N Text* subscribers are charged Php2.00 per minute while calls to other networks’ subscribers are charged Php6.50 per minute.

In 2011, *Sun Cellular* continued to offer its range of existing unlimited products and further introduced special product promotions. *Sun Cellular* introduced an enhanced version of its flagship *Call and Text Unlimited* product by launching the *Sun Call and Text Unlimited Superloaded* product, offering unlimited on-network call and text feature of the *Call and Text Unlimited Service* with the aim to provide more value for money by bundling a set number of free texts to other networks and free minutes of mobile internet. For example, the Php100 denomination is valid for five days and comes with 80 free texts to other networks and 30 free minutes of mobile internet. There are also variants with longer validity periods and more free inclusions: Php150 provides *Sun Call & Text Unlimited* for 7 days with 100 free texts to other networks, includes Php25 regular load and 30 free minutes of mobile internet, while Php450 is valid for 30 days, includes Php50 regular load and 90 free minutes of mobile internet. *Sun Flexiload* offers special rates for calls and texts to Sun (as low as Php0.50/call and Php0.25/text) and to other networks (as low as Php5.50/minute and Php0.50/text) in two variants: *Flexi Load 30* and *Flexi Load 50*. Subscribers also have the option of converting their *Flexi Load* to other *Sun Cellular’s* special load offerings such as the *Call and Text Unlimited* or the *Call and Text Combo*.

Smart offers both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php300 to Php3,500 for *Smart Postpaid* and from Php5,000 to Php8,000 for *Smart Infinity*. These plans are available with varying amounts of free air time and text messages and different rates beyond the free minutes and text messages, depending on the monthly service fee bundled with handsets. Monthly service fees for flat rate, or regular, plans are applicable only to local calls, text messages and data browsing, as well as for consumable plans to all voice calls, text messages (both local and international) and VAS.

*Sun Cellular* offers postpaid services that enable subscribers to place local and international calls and SMS, use mobile internet and utilize a wireless landline through postpaid plans with varying monthly service fees ranging from Php250 to Php3,500. *Sun Cellular* subscribers not availing of any *Call and Text Unlimited* service are charged Php5.50 per minute for calls to other *Sun Cellular* subscribers and Php6.50 to other networks. Local NDD calls are charged at Php6.50 per minute, while NDD calls are charged at Php10.00 per minute.

Smart is permitted to adjust its cellular air time and national direct dial rates according to changes in the Philippine peso-to-U.S. dollar exchange rate. Under the authorization granted to Smart by the NTC, Smart is permitted to increase and is required to decrease its air time and national direct dial rates by 1% for every Php0.25 change in the exchange rate relative to a base rate of Php24.73 to US\$1.00. However, Smart has not implemented any foreign currency adjustments to its rates since November 4, 1998 because of the concern that increased rates may result in decreased usage or switching to other cellular providers by its subscribers.

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

*Sun Cellular* offers IDD rate of only US\$0.30 per minute to Japan, Saudi Arabia, United Arab Emirates, Australia, United Kingdom, Italy, Germany, Spain and over 100 other countries. Subscribers can also opt to avail

of any of *Sun Cellular's* various promos, with rates that can reach as low as Php1.50 per minute.

Wolfpac generates revenues from SMS subscriptions, institutional services and downloadable contents. The subscription price for the SMS subscription and institutional services is pegged at Php2.50 per SMS, while for downloadable content, the subscription price ranges from Php10.00 to Php30.00.

#### *Distribution and Discounts*

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have 88 all exclusive regional distributors, 80 key account dealers, 21 of which are exclusive, including DMPI's 68 regional distributors, 46 key account dealers, 3 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products introductions. With the introduction of *Smart Load*, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the "sachet" marketing concept of consumer goods such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, *Smart Load's* distribution network now encompasses approximately 2.2 million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs and individual roving agents). These micro-retailers must be affiliated with any of Smart's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became more affordable and accessible to subscribers.

For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, air time cards and over-the-air reloads sold. Smart compensates dealers with Php100 to Php800 in cash discount per unit depending on the price of the prepaid phone kit sold whereas *Sun Cellular's* cash discount of Php75 to Php400 varies based on the prepaid phone kit sold. Air time cards and over-the-air reloads are sold at an average discount of approximately 8% and 16%, respectively for Smart, and 10% and 17%, respectively for *Sun Cellular*. Air time cards cannot be returned or refunded and normally expire within 12 months after release from the Smart warehouse. The same policy is being applied by *Sun Cellular*.

#### *Wireless Broadband, Satellite and Other Services*

##### *Overview*

We currently provide wireless broadband, and satellite and other services through SBI, DMPI, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator.

##### *SBI*

Through SBI with its *Smart Bro* brand, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. Smart provides its *Smart Bro* service through a 3.5G HSDPA network. As at December 31, 2011, we had 2,068,409 subscribers, an increase of 712,432 subscribers, or 53%, as compared with 1,355,977 subscribers as at December 31, 2010. *Smart Bro* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available.

##### *DMPI*

Through DMPI, with its *Sun Broadband Wireless* service, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. DMPI's *Sun Broadband Wireless* service offers internet users broadband wireless service with 3.5G HSPA technology on an all-IP network. As at December 31, 2011, DMPI has 200,972 and 251,084 prepaid and postpaid broadband subscribers, respectively. *Sun Broadband Wireless* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available. *Sun Cellular* also offers promotions for *Sun Broadband Wireless* subscriptions such as the *Sun Broadband Handset Giveaway* offering a free handset along with a free one-month EasyPhone 250 mobile subscription or a free three-

month *Fixed Load Plan 150* mobile subscription when they subscribe to a *Sun Broadband Plan 799* or *Plan 649*, respectively.

#### *PDSI*

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

#### *Airborne Access*

Through Airborne Access, we provide wireless internet access in hotspots nationwide equipped with Airborne Access WiFi access points.

#### *ACeS Philippines*

ACeS Philippines currently owns approximately 36.99% of AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS system. Further, AIL has an amended ATPA with National Service Providers in Asia, including PLDT. See *Note 24 – Related Party Transactions* and *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 7 for further discussion regarding the ATPA.

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

#### *Revenues*

Our revenues from wireless broadband, and satellite and other services consist of wireless broadband service revenues of SBI and PDSI, charges for ACeS Philippines' satellite information and messaging services and service revenues generated from PLDT Global's subsidiaries.

#### *Rates*

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

SBI offers mobile internet access through *Smart Bro Plug-It*, a wireless modem and *Smart Bro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity in places where there is Smart network coverage. *Smart Bro Plug-It* and *Smart Bro Pocket Wifi* are available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf100* and *Unli Surf50* for *Smart Bro Plug-It Prepaid* and *Smart Bro Pocket Wifi* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

*Smart Bro WiMAX* service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* unlimited broadband usage is available under Plan 799 and Plan 995 with burst speeds of up to 512 kbps and up to 1 Mbps, respectively.

DMPI's *Sun Broadband Wireless* service offers internet users affordable broadband wireless service with the most advanced 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* has plans and offerings ranging from Php350 to Php2,000 with speeds of up to 3.6 Mbps.

ACeS mobile service subscribers are charged Php13.84 per minute for local and mobile-to-mobile calls and for national direct dial services, while residential subscribers are charged peak hour rates of Php13.00 per minute and off-peak hour rates of Php8.00 per minute for domestic calls regardless of destination. For ACeS System public calling offices, callers are charged Php4.50 and Php7.00 per minute for calls terminating to fixed line and cellular networks, respectively. Rates for international long distance calls depend on the country of termination, and range from US\$0.35 per minute for frequently called countries to US\$0.85 per minute for less frequently called countries.

### **Fixed Line**

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

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

### **Local Exchange Service**

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries – Philcom and its subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI, Maratel and Digitel. Together, these subsidiaries account for approximately 17% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange services as at and for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
Number of local exchange line subscribers	2,166,295	1,822,105	1,816,541
Number of fixed line employees	9,072	7,395	7,947
Number of local exchange line subscribers per employee	239	246	229
Total local exchange service revenues (in millions) <sup>(2)</sup>	Php15,108	Php15,342	Php15,681
Local exchange service revenues as a percentage of total fixed line service revenues	26%	26%	26%
Local exchange service revenues as a percentage of total service revenues	9%	9%	9%

<sup>(1)</sup> Includes Digitel's revenues, subscriber base and employee count as at and for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators."

Revenues from our local exchange service decreased by Php234 million, or 2%, to Php15,108 million in 2011 from Php15,342 million in 2010 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation charges, partially offset by an increase in wired and PLP lines as a result of the launching of *PLDT Call All* service promotions related to *PLP* and the effect of the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of 2011, 2010 and 2009, respectively.

### **Rates**

Basic monthly charges for our local exchange service in the Metropolitan Manila area were Php592.63 for a single-party residential line and Php1,234.02 for a single business line as at December 31, 2011. Monthly charges vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,100 for residential customers and Php1,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allow for a minimal installation fee of Php500. Aside from basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls to PLDT and other landlines within a local area code are free. Our prepaid fixed line customers generally do not pay a basic monthly charge and are charged based on usage.

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

For the *PLP* postpaid regular service, there are two plans being offered: (a) Plan 600 with 600 free local outgoing minutes; and (b) Plan 1,000 with 1,000 free local outgoing minutes; and a charge of Php1 per minute in excess of free minutes for both plans. Another postpaid service currently offered is the *Call All* plan wherein *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers the Internet@Home service, which is a voice and data bundle offered in two plans with monthly service fees of Php990 and Php1,299.

For the *PLP* prepaid service, there are two load plans being offered: (i) Php300 load denomination with free 150 local outgoing minutes; and (ii) Php600 load denomination with free 600 local outgoing minutes. Both prepaid plans include unlimited incoming calls for one month, and charges Php2 per minute and Php1 per minute in excess of free local outgoing minutes for Php300 and Php600 denominations, respectively.

Pursuant to a currency exchange rate adjustment, or CERA, a mechanism authorized by the NTC, we are allowed to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the Philippine peso-to-U.S. dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In a letter dated July 11, 2008, the NTC had approved our request to implement a rate rationalization program for our local service rates. In effect, there has been no change in our monthly local service rates until the end of 2010. Further, in 2011, we have not made any adjustment in our monthly local service rates.

For a detailed description of these rates, see “– International Long Distance Service – Rates” and “– National Long Distance Service – Rates.”

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

#### *International Long Distance Service*

Our international long distance service consists of switched voice and packet-based voice and data services that go through our international gateway facilities. We also generate international long distance revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate to our local exchange network. Our packet-based voice and data services are transmitted over our existing traditional circuits, VoIP systems and the network of a consortium of dominant carriers in Asia in which PLDT is a member.

The following table shows certain information about our international long distance services for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
Total call volumes (in million minutes)	1,939	1,714	1,863
Inbound call volumes (in million minutes)	1,765	1,515	1,653
Outbound call volumes (in million minutes)	174	199	210
Inbound-outbound call ratio	10.1:1	7.6:1	7.9:1
Total international long distance service revenues (in millions) <sup>(2)</sup>	Php11,243	Php11,112	Php11,581
International long distance service revenues as a percentage of total fixed line service revenues	19%	19%	19%
International long distance service revenues as a percentage of total service revenues	7%	7%	7%

<sup>(1)</sup> Includes Digitel's revenues and call volumes for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

International long distance service historically has been a major source of our revenue. However, the decline in inbound termination and collection rates and intense competition have lowered our international long distance service revenues in the past years. Pursuant to a number of initiatives to strengthen our international long distance service business, revenues derived from our international long distance service have improved in 2011.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (i) lowering our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) being more selective in accepting incoming traffic from second- and third-tier international carriers; and (iv) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for customers. In addition, through PLDT Global, we aggregate inbound call traffic to the Philippines at our points of presence and, using our capacity in submarine cable systems connected to each point of presence, transmit calls to our network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering new products and services such as international prepaid cards, mobile services, SMS transit and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2011, 2010 and 2009:

	Net Settlement		
	2011	2010	2009
	(in millions)		
Saudi Arabia	US\$71	US\$32	US\$33
United States	22	31	25
United Arab Emirates	18	14	18
Taiwan	12	6	6
Japan	11	11	17
Hongkong	8	10	8
Qatar	7	11	5
UK	4	2	4
Canada	3	3	9
Others	21	21	32
Total	US\$177	US\$141	US\$157

#### *Rates*

The average termination rate for PLDT was approximately US\$0.105 per minute in 2009 and US\$0.10 per minute in 2010 and 2011.

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

We also offer international long distance services through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling service at IDD call rates ranging from Php1.50 per minute to Php15.00 per minute depending on the destination to more than 100 calling destinations (excluding the Middle East). *Budget Card Middle East Edition* offers reduced IDD call rates of Php10 per minute and Php15 per minute to 14 different destinations in the Middle East. *Budget Card* and *Budget Card Middle East Edition* are sold in denominations of Php200, Php100 and Php30 and must be consumed within 30 days from first use.

To cater to the growing OFW market, Digitel launched Choice Elite, a special plan which offers outbound IDD rates to top destination countries for as low as US\$0.14 per minute. The mindset of targeting OFW families in Luzon also became the primary reason why recent product bundles for Digitel DSL and Suntel offered a US\$0.10 per minute calling to select country destinations. Standard IDD rate of US\$0.40 per minute is being offered in all Digitel regular retail plans (Metered and Non Metered). Digitel also offers prepaid international call services via DGMAX, a pure IDD card that offers low-priced IDD calling services with rates ranging from Php1.50 per minute to Php15 per minute to different destinations. DGMAX are sold in two denominations of Php100 and Php50 and must be consumed within 30 days and 15 days, respectively, from first use.

### *National Long Distance Service*

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

The following table shows certain information about our national long distance services for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
Total call volumes (in million minutes)	1,040	1,290	1,822
Total national long distance service revenues (in millions) <sup>(2)</sup>	Php5,525	Php6,487	Php7,853
National long distance service revenue as a percentage of total fixed line service revenues	9%	11%	13%
National long distance service revenue as a percentage of total service revenues	3%	4%	4%

<sup>(1)</sup> Includes Digitel's revenues and call volumes for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing, cellular text messaging and the use of social networking sites, have negatively affected our national long distance call volumes partially offset by the effect of the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011 and higher ARPU primarily as a result of ceasing certain promotions on our national long distance calling rates. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, as well as the interconnection among local telcos, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

### *Rates*

Rates for national long distance calls traditionally were based on type of service, such as whether the call is operator-assisted or direct-dialed. However, in line with its move towards rate simplification, PLDT simplified these rates in recent years to a flat rate of Php5.00 per minute for calls originating and terminating to PLDT fixed line network, and for calls terminating to fixed line networks of other LECs. Additionally, in recent years, PLDT simplified its rates for calls terminating to cellular subscribers to a uniform rate of Php14.00 per minute.

In addition, PLDT launches promotions from time to time to stimulate fixed line usage.

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

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

## Data and Other Network Services

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

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
Subscriber base:			
<i>Broadband</i>	859,960	665,027	576,687
DSL	842,273	643,048	559,664
WeRoam	17,687	21,979	17,023
SWUP	20,153	15,641	12,383
Total data and other network service revenues (in millions) <sup>(2)</sup>	Php24,093	Php22,785	Php22,697
Domestic	16,647	15,646	16,393
<i>Broadband</i>	9,940	8,511	7,232
DSL	9,664	8,263	7,024
WeRoam	276	248	208
<i>Leased Lines and Others</i>	6,707	7,135	9,161
International			
<i>Leased Lines and Others</i>	6,310	6,241	5,491
Vitro™ Data Center	1,136	898	812
Data and other network service revenues as a percentage of total fixed line service revenues	41%	38%	37%
Data and other network service revenues as a percentage of total service revenues	14%	13%	13%

<sup>(1)</sup> Includes Digitel's revenues and subscriber base as at and for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Recognizing the growth potential of data and other networking services, including IP-based services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services in 2010 and continued to grow in 2011.

The continuous upgrading of our network using next-generation facilities and the completion of our domestic fiber optic backbone has enabled us to offer a growing range of value-added and broadband services. With this and other technological upgrades, our infrastructure has developed from a traditional voice facility to a nationwide data network.

Domestic data services consist of broadband data services and leased lines and other data services.

In 2011, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate subscribers with multiple branches, and *PLDT WeRoam*, our broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies).

*WeRoam* mobile broadband offers enterprise-grade postpaid packages that include unlimited internet or VPN access with maximum speeds of 3.6 Mbps via HSPA technology. VAS such as cloud-based web security and premium static IP addressing are also available to enterprise customers. *WeRoam* is offered at monthly recurring fees of Php1,300, Php1,500, Php1,750 or Php2,000 depending on the type of plan selected.

The *WeRoam Notebook Shop* bundles *WeRoam* with the latest Lenovo business laptops to provide companies with powerful mobile productivity solutions. The *WeRoam Notebook Shop* is available in three



packages, *Portable*, *Productive* and *Performance*, depending on the computing power needed, offered at monthly recurring fees ranging from Php2,520 to Php8,926.

Leased lines and other data services include: (i) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (ii) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (iii) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (iv) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (v) *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.

International leased lines and other data services consist mainly of: (i) 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; (ii) 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 (iii) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies.

*Vitro*<sup>TM</sup> data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls.

#### *Miscellaneous*

Miscellaneous services provide directory advertising, facilities management, rental fees and other services which are conducted through our wholly-owned subsidiary, ePLDT, and its subsidiaries, a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications and online gaming.

#### ***Business Process Outsourcing***

We conduct our BPO business through the operation of our knowledge processing solutions and customer relationship management. Revenues from our BPO business are mainly denominated in U.S. dollars and as such are impacted by the strength of the Philippine peso. Our BPO business registered revenues of Php8,588 million, Php8,112 million and Php8,534 million for the years ended December 31, 2011, 2010 and 2009, respectively, accounting for 5% of our total revenues in each year. The growth in the revenue contribution from our BPO business was primarily due to the continued growth of our knowledge processing solutions business service revenues.

#### *Knowledge Processing Solutions*

We provide knowledge processing solutions through the SPi Group. Our knowledge processing solutions business provides services such as: (i) editorial and content production services to the scholarly scientific, technical and medical journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) conversion services of medical records/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and (v) revenue cycle management, transcription and coding compliance services for U.S. medical facilities.

#### *Customer Relationship Management*

We provide our customer relationship management business primarily through SPi CRM. SPi CRM provides offshore, cost-effective contact center outsourcing solutions specializing in inbound customer care; customer and technical support to its clients in the Philippines, U.S. and U.K.; and exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In 2011, we owned and operated 5,959 seats with an average of 3,360 CSRs compared to 7,045 seats with an average of 4,592 CSRs in 2010. As at December 31, 2011 and 2010, SPi CRM had six customer relationship management sites.

## **Infrastructure**

### **Wireless Network Infrastructure**

#### *Cellular*

Through Smart and DMPI, we operate a digital GSM network. To meet the growing demand for cellular services, Smart and DMPI have implemented an extensive deployment program for its GSM network covering substantially all of Metropolitan Manila and most of the other population centers in the Philippines. As at December 31, 2011, Smart and DMPI have 78 mobile switching centers, 70 text messaging service centers and 15,502 cellular/mobile broadband base stations in operation after having added 2,667 base stations to its nationwide cellular network in 2011, including DMPI's mobile switching centers of 30, text messaging centers of 6 and base stations of 2,213 due to the acquisition of Digitel on October 26, 2011.

Smart has an operating spectrum of 7.5 MHz in the 900 band and 20 MHz in the 1800 band for its GSM network; 15 MHz in the 2100 band and 10 MHz in the 850 band assigned for 3G and W-CDMA. Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. CURE was assigned 10 MHz of 3G frequency bandwidth in the 1955-1965 to 1955-2155 MHz spectrum, which is the subject of the divestment plan as presented by PLDT to the NTC in relation to PLDT's acquisition of Digitel. DMPI has a total operating spectrum of 17.5 MHz in the 1800 band and 10 MHz band in the 2100 band, with the latter under the 1935-1945 MHz and 2125-2135 MHz spectrum, contiguous to Smart's 15 MHz spectrum. See Item 1. "Description of Business – Recent Developments" for further discussion.

Smart has been co-locating its cell sites where its base stations are installed. In addition, 23 of Smart's mobile switching centers were housed in PLDT's fixed line complexes as at December 31, 2011. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks. Due to its access to PLDT's network facilities, Smart has been able to achieve significant capital expenditure savings, which capital expenditures are understood to be significantly less, on a per net addition basis, than its current competitors. This translates into an improved ability to price competitively and target the mass market subscriber base in the Philippines, while retaining profitability.

Smart has been continuously extending its 3G footprint and since it commenced with 70% population coverage and expects to cover more by the end of 2012 as part of the 3G rollout and expansion program. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Smart has also been deploying its HSPA+ network in urban areas where there is a demand for mobile broadband applications and where HSPA+ mobile units are more likely to be available.

Smart launched its fourth generation (4G) Long Term Evolution, or LTE, network in April 2011. To date, Smart has fired up its LTE network in over 30 locations in the Philippines. Forthcoming are deployments in select high traffic areas in the nation's capital and strategic locations to benefit more members of the Philippine population.

The PLDT Group is currently undertaking a massive network modernization program to expand capacity, enhance capabilities of the network, and further improve on the quality of the subscriber experience to meet the increasing demand for cellular and advanced broadband services in a highly competitive playing field. The modernized network is expected to support advanced multimedia services, as well as upcoming technologies in Smart's technology roadmap, and also enable Smart to accommodate a steadily increasing mainstream voice and SMS services due to bucket and unlimited offerings. The program, which is estimated to cost Php67 billion will also include convergent IT transformation that will enhance business analytics, customer relations management and operations support systems. Initially launched in 2011 as a two-year program, the upgrade has been accelerated and should be substantially completed within 2012.

With the acquisition of Digitel, there is added opportunity to further strengthen the PLDT Group network by harmonizing the ongoing modernization program with *Sun Cellular's* network that should generate significant potential synergies on capital expenditure optimization and cost efficiencies from co-location of base stations,

consolidation of overlapping technical systems, reduction in cost duplications, bulk purchasing of network equipment, platforms, systems, devices and other materials in a shared service environment.

### ***Wireless Broadband, Satellite and Other Services***

SBI operates a nationwide broadband wireless internet data services. It is operating in the 2.4, 2.5, 3.5 and 5.7 GHz spectrum, supporting its WiFi, Canopy and WiMax services, respectively. It offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates WiFi hotspots installations that serve mobile internet users. Smart also upgraded its 3G network to HSDPA to provide users with high download data rates and an improved broadband experience. More than 2,500 of Smart's base stations are now wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically co-located in Smart's cellular base stations that allow it to efficiently reach many subscribers. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.

ACeS Philippines manages, controls and operates its own satellite gateway and other ground infrastructure, including a 13-meter feeder-link C-band earth station, beam congruency antenna and equipment that serve as the primary interface between the ACeS System and other telecommunications networks. It uses the Garuda I satellite to transmit digital voice services to ACeS System, mobile and fixed terminal users within the Asian service area.

### **Fixed Line Network Infrastructure**

#### ***Domestic***

Our domestic telephone network includes installed telephones and other equipment on customers' premises, local access lines connecting customers to exchanges, referred to as "outside plant," inter-office lines connecting exchanges, and long distance transmission equipment. We have a total of 271 central office exchanges nationwide as at December 31, 2011 and are continuously expanding the wireline infrastructure in unserved and underserved areas using new technology.

We are continuing the upgrade of our fixed line facilities to the NGN, an IP-based platform that can deliver voice and data services using the same network. NGN enables us to replace the ageing Public Switched Telephone Network, transfer existing customers to this newer platform, and acquire new customers for voice and data services. We expect to complete the upgrading of our fixed line facilities to NGN in 2015, providing subscribers with a diversified range of telecommunication services using IP technology.

This year, complementing our core and transport NGN infrastructure, we started the roll-out of a more advanced access technology called Fiber-To-The-Home, or FTTH. FTTH employs fiber optics all the way up to customer premises. To realize this, we are building a fiber distribution network to connect homes and other premises. This new optical fiber distribution network will eventually replace conventional copper cable. At present, FTTH is potentially capable of delivering up to 2.5Gbps bandwidth to customers. This huge bandwidth, when tapped, could enable the Company to additionally deliver highbandwidth content to homes, including high definition broadcast television channels, video-on-demand, and other new services now being offered by leading telcos abroad. We began deploying FTTH in high-end and selected upper middle villages in Metro Manila.

We are also continuously upgrading our data and transport networks to IP-based platform. This enables us to also retire our old data network and provide new capabilities to our corporate data customers. We also expect to complete this project in 2015.

We also have an Internet Gateway that provides premium service with high-speed, reliable and managed connectivity to the internet. The gateway is composed of high capacity and high performance routers that serve as our IP network gateway to the rest of the world. It provides premium internet service to all types of customers ranging from ordinary broadband to high bandwidth internet requirements of corporate customers, knowledge processing solution providers, internet service providers and other service providers.

Furthermore, we have several networks that provide domestic and international connectivity for corporate customers and other carriers. These include the Multi-Service Access Platform, or MSAP, based on synchronous

digital hierarchy, or SDH, technology and legacy data networks that provide wide range of bandwidth from low speed to high speed capacity in Gigabits per seconds. These networks are deployed in strategic areas nationwide comprising of more than a thousand nodes. This year, we have started deployment of Carrier Ethernet Network to serve the growing demand for Ethernet services from the corporate segment and prepare the network to deliver TV services.

We have our own Domestic Fiber Optic Network (DFON) composed of 10,050 kilometers of fiber optic cable installed across the country connecting its major islands. It is the first fiber optic backbone in the country and is used in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network which uses Reconfigurable Optical Add-Drop Multiplexer (ROADM) technology is composed of 48 nodes connected by terrestrial and submarine cable links and is configured in seven self-healing rings and three self-healing subtending rings which allow continuous flow of traffic in the event of single link failure. Selected rings are provided with a third fiber optic cable route which further protects the network from outages in case of double/multiple link failures within the ring. To date, the PLDT DFON has an aggregate capacity of 2.3 Terabits per second and is connected directly to three international submarine cable systems. The DFON is complemented by terrestrial microwave backbone to deliver services to remote areas.

We likewise have an IP backbone network composed of high-capacity, high-performance core and edge routers which provides connectivity to all IP-based network elements of PLDT, Smart, other affiliates and subsidiaries, and corporate customers. It serves as the single IP transport platform for all IP-based services of PLDT.

For many years and until today, PLDT has been using the poles of Meralco in Metropolitan Manila and in the rest of Meralco's services areas for PLDT's outside plant aerial cable pursuant to lease agreements with Meralco.

The recently acquired Digitel has fixed line infrastructure that has similarities to PLDT's in terms of network architecture and technologies used. It has legacy PSTN network in all of its service areas in Luzon and Metro Manila and has also a DSL network deployed in majority of its service areas. Digitel has a Luzon-wide transmission system consisting of microwave radio and fiber optics systems used to connect transit exchanges and other operators. Majority of its transmission network is running on microwave radio systems. Digitel has its own IP backbone, internet gateway and international voice gateway.

Considering the similarity of technology used, service coverage and products being offered, there is significant potential gain for cost efficiency via a converged network. PLDT and Digitel have embarked on synergy initiatives to rationalize and integrate the network which includes the outside plant, the DSL network, the IP backbone, the transmission systems, the internet gateway, international voice gateway, the PSTN, and NGN, among others. The customer care systems and operation support systems will also be rationalized and integrated to align with the converged network.

### ***International***

We provide international network services via two international gateways located in the cities of Manila and Makati. At the moment we have two new IP softswitches that will replace our two legacy switches which we use to provide international voice services. As at December 31, 2011, our international long distance facilities allow direct correspondence with 40 countries (representing 86 correspondents) and can reach 668 foreign destinations (via direct and transited routes including fix and mobile breakouts) worldwide.

Likewise, Digitel has two international gateway facility switches, one in Binalonan, Pangasinan and another in Quezon City. These two gateway facilities, combined, can provide instant connectivity to more than 200 international destinations which complement PLDT's reach.

We also own interests in submarine cable systems, through which we route all of our international voice and data traffic as well as private data lines.

The table below shows the submarine cable systems in which PLDT has interests and the countries or territories they link:

<b>Cable System</b>	<b>Countries Being Linked</b>
Asia-Pacific Cable Network 2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
China-U.S. Cable	Japan, China, Taiwan, Korea, Guam and the U.S. Mainland
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S., TGN-P, Unity	Japan and the U.S.
AAG Cable Network	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland

On January 27, 2011, PLDT signed the Asia Submarine-cable Express (ASE) Construction and Maintenance Agreement with leading telecommunication companies of Japan and Singapore. ASE will initially connect the Philippines, Japan, Hong Kong and Singapore. ASE will also have a Malaysian landing which together with certain fibers of ASE, will be used by Malaysia. Construction is on full swing. PLDT is building a new cable landing station in Daet, Camarines Norte for ASE. This new landing station situated in the eastern coast of the Philippines will complement and provide resiliency to the existing PLDT and Digitel cable landing stations located at the western portion and near the northern tip of the country. ASE is expected to be operational by the third quarter of 2012, with the Japan, Philippines and Singapore landings becoming available ahead of the Hong Kong landing, which will be on stream by January 2013.

In August 2011, the APCN2 Stage 1e/2b upgrade project was completed, providing PLDT with additional capacity (in multiple 10Gs). PLDT has acquired the transpacific capacities in Unity and TGN-P to interconnect with APCN2 for data connection requirements. PLDT has also participated in the AAG upgrade and another APCN2 upgrade, which are expected to be ready for service by the third quarter of 2012.

Adding up to the above inventory is Digitel's submarine cable capacities in East Asia Crossing (EAC) and China-United States Cable Network (CUCN).

The extent of PLDT's international cable infrastructure provides not only significant capacity in support of the business, it also ensures resiliency and redundancy in order to minimize service disruptions and guarantee continuity of service.

### **Interconnection Agreements**

Since the issuance of Executive Order, or E.O., No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers' networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and cellular carriers.

In January 2009, local access charge for domestic calls from fixed line to other network's fixed line is charged at Php3.00 per minute; calls from fixed line to CMTS is charged at Php4.00 per minute. Meanwhile, CMTS calls to fixed line network remains at Php3.00 per minute.

PLDT is an Inter Exchange Carrier providing transit service among CMTS, LEC operators including the Philippine Association of Public Telecommunications Company, or PAPTELCO. Transit is a service being provided by PLDT to connect calls from one carrier to other carriers that have no direct interconnection. Since January 2009, PLDT's transit fee remains at Php0.50 per minute for short haul (intra-island), Php1.25 per minute for long-haul (inter-island) and Php1.14 per minute for CMTS calls.

PLDT has continuously and actively negotiated with other legitimate Philippine fixed and CMTS carriers for interconnection based on the guidelines being issued by the NTC or any authorized government agency. These carriers include the major fixed and mobile players in the industry with nationwide operations, PAPTELCO and

other non-PAPTELCO players, both of which usually operate in selected towns in the countryside. As at December 31, 2011, PAPTELCO has 43 member companies operating 119 main telephone exchanges in the countryside.

The average international termination rate for calls to PLDT was approximately US\$0.105 per minute in 2009, US\$0.10 per minute in 2010 and US\$0.095 in 2011. Despite the global trend towards reductions in wholesale international termination rates, PLDT has only implemented modest rate reduction since 2009. Also, PLDT carries international calls terminating to Smart network where it has no direct interconnection. As at December 31, 2011, PLDT is interconnected with 86 foreign carriers from 40 countries worldwide with 668 international destinations.

The average international termination rate for calls to Smart was approximately US\$0.13 per minute in 2009, US\$0.13 per minute in 2010 and approximately US\$0.13 per minute in 2011. Access charge for SMS from Smart to other CMTS operators and vice versa had been reduced from Php0.35 per SMS to Php0.15 per SMS effective November 30, 2011, as mandated by the NTC through Memorandum Circular No. 02-10-2011.

The average international termination rates for calls to Digitel were approximately US\$0.101 per minute in 2009 and US\$0.100 per minute in each of the year 2010 and 2011, and for international calls terminating DMPI were approximately US\$0.1041 per minute in 2009 and US\$0.1035 per minute in each of the year 2010 and 2011. Effective January 1, 2004, local access for cellular operators, including Smart, that terminate calls to Digitel's fixed line network amounted to Php3.00 per minute.

## **Licenses and Regulations**

### **Licenses**

PLDT, SubicTel, ClarkTel, Philcom, Smart, Digitel, SBI and CURE provide telecommunications services pursuant to legislative franchises which will expire, in the case of PLDT, on November 28, 2028; in the case of SubicTel, in 2019; in the case of ClarkTel, on June 30, 2024; in the case of Philcom, in November 2019; in the case of Digitel, February 2019; in the case of Smart, on March 27, 2017 and with respect to spectrum transferred from PCEV, on May 14, 2019; in the case of SBI, on July 14, 2022; in the case of DMPI, on December 11, 2027; and in the case of CURE, on April 24, 2026, although PLDT has agreed to divest the CURE spectrum as a part of the NTC decision with respect to PLDT's acquisition of a controlling interest in Digitel. A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

#### *PLDT*

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various times between now and 2028. The CPCNs pursuant to which PLDT may provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT's CPCNs and provisional authorities have already expired, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The periods of validity of some of PLDT's CPCNs has been extended further by the NTC to November 28, 2028, coterminous with PLDT's current franchise under Republic Act, or R.A., 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 have been granted by the NTC. See Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties – Risks Relating to Us – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes" for further discussion.

On August 22, 2008, PLDT was granted authority under NTC Case No. 2007-095 to operate in key cities and municipalities nationwide not yet covered by its existing CPCNs and/or authorizations. This approval extended the coverage of PLDT to all areas nationwide except for seven areas in Albay province. On July 17, 2009, the NTC granted PLDT a provisional authority under NTC Case No. 2006-078 to operate in the seven areas in Albay, thereby, authorizing it to operate nationwide.

On August 31, 2011, the NTC rendered its decision in NTC Case No. 2011-030 granting provisional authority for PLDT to participate in the ownership, construction and maintenance of the Asia Submarine-cable Express, or ASE, submarine cable network and further authorizing PLDT to construct the Philippine terminal station thereof in Daet, Province of Camarines Norte. The said provisional authority shall be valid 18 months from receipt thereof by PLDT or up to February 28, 2013.

#### *Digitel*

Digitel operates its business pursuant to a number of provisional authorities and CPCNs. Under these CPCNs, Digitel may provide services to: (a) install, operate, maintain and develop telecommunications facilities in Regions I to V; (b) install, operate and maintain telephone systems/networks/services in Quezon City, Valenzuela City and Malabon, Metro Manila and Tarlac; (c) install, operate and maintain an IGF in Binalonan, Pangasinan; (d) install, operate and maintain an IGF in Metro Manila; (e) operate and maintain a National Digital Transmission Network; (f) install, operate, and maintain a nationwide CMTS using GSM and/or CDMA technology; and (g) install, operate and maintain a cable landing station. Digitel was also granted provisional authorities to: (a) install, operate and maintain LECs in the National Capital Region; and (b) install, operate and maintain LEC services in Visayas and Mindanao.

#### *Smart*

Smart operates its cellular, international long distance and national long distance services pursuant to CPCNs, the terms of which will expire upon the expiration of its franchise. On July 22, 2002, Smart was granted separate CPCNs to operate a CMTS and an international gateway facility. On August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which will also expire upon expiration of its franchise. On February 19, 2008, Smart was granted a CPCN to establish, install, maintain, lease and operate an international private leased circuit for a term that is coterminous with the expiration of its franchise. Prior to that, Smart was permitted to engage in these activities pursuant to a provisional authority and timely filed an application for the grant of such CPCN. On September 29, 2009, Smart was granted a provisional authority to install, operate and maintain a nationwide data communications network which is valid for 18 months or up to March 29, 2011. Smart filed a motion for issuance of CPCN or extension of provisional authority on March 3, 2011. Acting on the motion, the NTC issued an Order on June 24, 2011, extending the provisional authority from March 28, 2011 up to but not beyond March 28, 2014. On May 28, 2010, the NTC issued an order granting the extension of Smart's provisional authority to construct, install, operate and maintain a nationwide public calling office and payphone service from January 5, 2010 up to January 4, 2013.

On December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked the highest among the competing operators with a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrums. Smart is required to pay annual license fees of Php115 million based on the 15 MHz of paired spectrum awarded to Smart.

Smart received CMTS frequency band 825-835/870-880 MHz from PCEV for additional 3G use on March 6, 2008. Smart is now required to pay to NTC the spectrum user fee, or SUF, of Php150 million based on the additional 10 MHz of 3G frequencies.

Under the terms of the 3G license, Smart was required to:

- begin installation and rollout of its 3G network no later than 18 months from the date of the award;
- start commercial operations no later than 30 months from the date of the award; and
- cover at least 80% of provincial capitals and 80% of chartered cities within five years.

### *DMPI*

On August 28, 2003, the NTC approved the assignment by Digitel of its authority to construct, install, operate and maintain a nationwide CMTS using GSM and/or CDMA technology to its wholly-owned subsidiary, DMPI. DMPI operates under the trade name *Sun Cellular* and is likewise a grantee of a 25-year legislative franchise under R.A. 9180, which will expire on December 11, 2027. DMPI was also awarded a 3G license by the NTC with 10MHz radio frequency allocation.

### *SBI*

PCEV was authorized to provide virtually every type of telecommunication services, including the transmission of voice, data facsimile, audio and video and information services, in and between provinces, cities and municipalities throughout the Philippines. The franchise, which was last amended on May 14, 1992, will expire on May 14, 2019 and may be extended by a legislative act of the Philippine Congress. On January 8, 2010, the NTC approved the transfer to SBI of PCEV's CPCN to establish, construct, operate and maintain a nationwide CMTS and PCEV is now an investment holding company.

SBI is a grantee of a 25-year legislative franchise under R.A. 8337, which will expire on July 14, 2022, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines.

On August 26, 2009, the NTC granted SBI a CPCN for the installation, operation and maintenance of the data leased channel circuit network service for a period coterminous with the life of its existing franchise. SBI is a grantee of a provisional authority for the expansion of its data leased channel circuit network service in several areas in Zamboanga Sibugay, Sultan Kudarat, Southern Leyte, Biliran, Compostela Valley, Davao Oriental, Dinagat Island and Shariff Kabunsuan. The provisional authority is valid for 18 months from September 29, 2009 until March 29, 2011. SBI filed a motion for issuance of CPCN or extension of provisional authority on March 2, 2011. The said motion is still pending resolution by the NTC. SBI is also a grantee of a provisional authority for the installation, operation and maintenance of international leased line service that was valid up to February 2005 and the motion for extension of which remains pending with the NTC as at the date of this annual report.

### *CURE*

CURE is a grantee of a 25-year congressional franchise under R.A. 9130, which will expire on April 24, 2026, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines. The NTC granted CURE a provisional authority to install, operate and maintain a nationwide 3G network on January 3, 2006 valid for 18 months, which was subsequently extended for three years from January 4, 2007 until January 3, 2010. On December 3, 2009, CURE filed a motion for issuance of CPCN or extension on the provisional authority. CURE had also submitted its roll-out plan to the NTC on January 4, 2010. As at the date of this annual report, this motion is still pending with the NTC. The congressional franchise, spectrum and associated permits of CURE are expected to be divested as part of the NTC decision with respect to the Digitel acquisition. See Item 1. "Description of Business – Divestment of CURE".

### *PDSI*

PDSI is a grantee of a 25-year congressional franchise under R.A. 8992 which will expire on January 26, 2026 to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunication services in and between provinces and municipalities in the Philippines and between the Philippines and other countries and territories.

PDSI is a holder of a provisional authority issued by the NTC to construct, install, operate and maintain an information and data communication network in key cities and municipalities in the Philippines on December 22, 2005 with validity of 18 months or until June 22, 2007, which has been successively extended by the NTC thereafter. Most recently, on April 7, 2010, the NTC issued an order dated June 29, 2010 extending the provisional authority of PDSI to another three years or up to June 22, 2013. Likewise, PDSI is a registered VAS provider for internet access services and VoIP.



The following table sets forth the spectrum system, licensed frequency and bandwidth used by Smart, Digitel, SBI, CURE and PDSI:

Carrier	Spectrum System	Frequency Assignment	Bandwidth
Smart	ETACS/GSM 900 GSM 1800	897.5-905/942.5-950 MHz	7.5 MHz
		1725-1730/1820-1825 MHz	5.0 MHz
		1730-1732.5/1825-1827.5 MHz	2.5 MHz
		1735-1740/1830-1835 MHz	5.0 MHz
	3G (W-CDMA)	1745-1750/1840-1845 MHz	5.0 MHz
		1780-1782.5/1875-1877.5 MHz	2.5 MHz
		1920-1935/2110-2125 MHz	15.0 MHz
		825-835/870-880 MHz	10.0 MHz
Digitel	GSM 1800	1760-1775/1855-1870 MHz	15.0 MHz
		1782.5-1785/1877.5-1880 MHz	2.5 MHz
		1935-1945/2125-2135 MHz	10.0 MHz
		2520-2535 MHz	15.0 MHz
SBI	AMPS/CDMA <sup>(1)</sup>	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
	Wireless broadband	2670-2690 MHz <sup>(2)</sup>	20.0 MHz
		2400-2483.5 MHz <sup>(2)</sup>	73.0 MHz
		3400-3590 MHz <sup>(2)</sup>	94.0 MHz
		5470-5850 MHz <sup>(2)</sup>	123.0 MHz
CURE	3G	1955-1965/2145-2155 MHz <sup>(4)</sup>	10.0 MHz
PDSI	BWA (WiMAX)	2332.5-2362.5 MHz <sup>(3)</sup>	30.0 MHz

<sup>(1)</sup> On January 8, 2010, the NTC approved the transfer of PCEV's CPCN to SBI.

<sup>(2)</sup> SBI frequency assignments on these bands are non-contiguous and are on a per station and location basis.

<sup>(3)</sup> On May 27, 2010, the NTC adjusted PDSI's frequency assignments from 2340-2370 MHz to 2332.5-2362.5 MHz, due to various technical considerations.

<sup>(4)</sup> The congressional franchise, spectrum and associated permits of CURE are expected to be divested as part of the NTC decision with respect to the Digitel acquisition. See Item 1. "Description of Business – Divestment of CURE".

### **Material Effects of Regulation on our Business**

Operators of international gateway facilities and cellular telephone operators, pursuant to Executive Order No. 109, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install one rural exchange line for every ten urban exchange lines installed. Smart and PCEV were required to install 700,000 and 400,000 rural lines, respectively, and each has received a certificate of compliance from the NTC.

PLDT, SubicTel, ClarkTel, Philcom, Smart, Digitel, PCEV, SBI and CURE are required to pay various permits, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 3. "Legal Proceedings – NTC SRF."

During the 15th Philippine Congress in 2010, Smart was requested to attend a hearing regarding HB No. 1224 or the Corporate Social Responsibility Act Bill filed by Rep. Gloria Macapagal-Arroyo and Rep. Diosdado Macapagal-Arroyo. Aside from this proposed legislation, both the Congress and the Senate of the Philippines have pending bills filed by various legislators concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. Senate Bill No. 1 introduced by Sen. Juan Ponce Enrile seeks to penalize unfair trade and anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power and aims to strengthen the powers of regulatory authorities. The bill penalizes cartelization, monopolization, abuse of monopoly power or dominant position, and other unfair competition practices. The PLDT Group submitted its position paper on the bill on November 11, 2010. Other Senate bills which have been introduced during the 15<sup>th</sup> Congress on the subject matter are Senate Bill nos. 123, 175 and 1838. The various committee hearings on these Senate bills have already been concluded and the Senate of the Philippines is expected to come out with one final version in substitution of these various Senate Bills any time soon. House Bill No. 4835, a consolidated bill in substitution of House Bills Nos. 549, 913, 1007, 1583, 1733, and others, is a similar bill proposed in the House of Representatives, which penalizes anti-competitive agreements, abuse of dominant position, and anti-competitive mergers and establishes a Philippine Fair Competition Commission, or the Commission. Under this proposed bill, the Commission has the

power, among others, to commence investigations on transactions, agreements, or acts, that prevent, distort or restrict competition. It is relevant that the bill considers a prima facie case of anti-competitive agreement when two or more firms that are ostensibly competing for the same relevant market and actually perform or complementary acts among themselves which tend to bring about artificial and unreasonable increase, decrease or fixing in the price of any goods or when they simultaneously and unreasonably increase, decrease or fix the prices of their seemingly competing goods thereby lessening competition in the relevant market among themselves. This bill has undergone third reading but to date, no final version has yet been released.

There are also bills introduced in the 15<sup>th</sup> Congress of the Philippines which seek to regulate interconnection charges by either prescribing lower rates or, at worse, abolishing the same. Some of them are House Bill Nos. 4939 of Representative Winston Castelo, House Bill No. 4598 of Representative Joseph Violago and House Bill No. 2858 of Representatives Rufus B. Rodriguez and Maximo B. Rodriguez. Committee hearings on these bills are ongoing.

Since 2009, the NTC has issued a number of directives that regulate the manner in which we conduct our business:

- On July 3, 2009, the NTC issued Memorandum Circular No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.
- On July 7, 2009, the NTC amended its rules on broadcast messaging in Memorandum Circular No. 04-07-2009, which prohibits content and/or information providers from initiating push messages. It further requires that requests for services must be initiated by the subscribers and not forced upon them by the public telecommunications entities and/or content providers. It further mandates that subscribers be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.
- On July 23, 2009, the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to charge calls on a maximum six-second per pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. The NTC granted Smart the provisional authority to charge new rates and implement six-second per pulse scheme on December 5, 2009. Smart subsequently implemented the six-second per pulse directive by billing on a six-second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart's implementation of the six-second per pulse directive. In December 2009, Smart and other CMTS providers challenged the implementation of the NTC memorandum circular before the Court of Appeals, which issued a writ of preliminary injunction preventing the NTC from implementing its six-second per pulse billing directive. On December 28, 2010, the Court of Appeals promulgated a decision finding that the NTC had no basis to impose the rates it fixed for the six-second per pulse and that the CMTS operators have the option to file their rate applications anew. However, the Court ruled also that under the NTC memorandum circular, the six-second per pulse is the default mode and that the NTC has the power to regulate the rates of CMTS providers under Section 17 of R.A. 7925, even in the absence of ruinous competition, monopoly, cartel or combination thereof in restraint of free competition. The NTC, through the Office of the Solicitor General filed a motion for partial reconsideration of the decision which Smart opposed. Smart and the other petitioners, except DMPI, likewise filed separate motions for partial reconsideration. In an Order dated January 19, 2012, the Court of Appeals denied all motions for reconsideration. Smart and CURE filed their petitions for review with the Supreme Court on March 15, 2012 and March 12, 2012, respectively. The six-second per pulse billing scheme is expected to have a negative impact on Smart's revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.
- On February 18, 2011, the NTC issued Memorandum Circular No. 01-02-2011 which among others required mobile phone providers like Smart and DMPI to make: internet access through mobile phones optional; inform their subscribers of charges for internet access through mobile phones; and remind subscribers through SMS if at least 50% of credit limit has already been consumed.

- On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 which mandates that interconnection charge for SMS between two separate networks shall not be higher than Php0.15 per SMS. Accordingly, Smart amended its interconnection amendments with other SMS providers in compliance with the circular. However, the NTC issued a show cause order dated December 12, 2011 requiring it to explain in writing within 15 days from receipt of the order why it has not lowered SMS retail rates despite the issuance of Memorandum Circular No. 02-10-2011. Smart and DMPI filed their answer on January 12, 2012, arguing, among others, that the circular does not mandate the reduction of SMS retail rates and that the NTC has no power to impose rates on mobile operators.

See Item 6. “Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties – Risks Relating to Us – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes” for further discussion.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act, R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law became effective; or (b) the entity’s first start of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. However, Smart and DMPI have not conducted a public offering of its shares. If Smart and DMPI are found to be in violation of R.A. 7925, this could result in the revocation of the franchises of Smart and DMPI and in the filing of a *quo warranto* case against Smart and DMPI by the Office of the Solicitor General of the Philippines. See Item 6. “Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties – Risks Relating to Us – The franchise of Smart and DMPI may be revoked due to their failure to conduct a public offering of their shares” for further discussion.

On April 14, 2009, the NTC released the implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

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

Further, on December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge to/from LEC and to/from CMTS to Php2.50 per minute, from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, making it in parity with each other. PLDT and Smart separately filed their respective Motions for Reconsideration alleging among others that interconnection, including the rates thereof, should be by law a product of bilateral negotiations between the parties and the Decision is unconstitutional as it is an invalid exercise by the NTC of its quasi-legislative powers and violates the constitutional guarantee against non-impairment of contracts.

## **Competition**

Including us, there are three major LECs, 11 international gateway facility providers and three major cellular operators in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we face increasing competition in major services of the telecommunications industry, particularly in data and other network services.

## **Cellular Service**

There are presently three major cellular operators, namely Smart, DMPI and Globe, with DMPI now part of PLDT. These three cellular operators have a large share of the Philippine cellular market. DMPI commenced its cellular service with the *Sun Cellular* brand on March 29, 2003. In December 2005, the NTC awarded four out of five 3G licenses to existing cellular operators Smart, Globe, DMPI and to a new entrant, CURE. The NTC has yet to award a fifth license to another operator.

Competition in the cellular telecommunications industry has intensified with the increased availability of affordably priced handsets offering a range of new functions and the introduction by telco operators of new and improved plans for prepaid and postpaid subscribers, reduced rates per minute and aggressive marketing and promotional strategies. The principal bases of competition are price, including handset prices in the case of postpaid plans, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 14,879 cellular/mobile broadband base stations, including DMPI's 4,376 base stations as at December 31, 2011.

As a result of competitive pressures, service providers, including Smart, have introduced "bucket" plans providing unlimited voice and text services, and other promotions. While most of the "bucket" priced plans currently available in the market are being offered on promotional bases, Smart, Globe and *Sun Cellular* continue to launch other services that are designed to encourage incremental usage from existing subscribers and also to attract new subscribers.

Cellular operators also compete actively in launching innovative products and VAS. The growing range of cellular products and services include not only text messaging but also multi-media messaging, voice mail, text mail, international roaming, information-on-demand, mobile banking, e-commerce, mobile data, cellular internet access and internet messaging.

On February 14, 2006, Smart opened its 3G network in selected key cities nationwide, making video calling, video streaming, high speed internet browsing and special 3G content downloads on its 3G network available to subscribers with 3G handsets. Likewise, Globe has been rolling out its 3G network.

Consistent with industry practice and Smart's churn management efforts, Smart "locks" the handsets it sells to its subscribers, rendering them incompatible with SIM cards issued by competitors and thereby hindering them from swapping the existing SIM for a SIM of a competing operator. However, subscribers can have their handsets "unlocked" by unauthorized parties for a nominal fee and purchase new SIM cards from competing operators. "Unlocking" does not involve significant cost to the subscribers. Switching to another cellular operator would, however, result in a change of the subscriber's cellular telephone number.

In order to avail themselves of promotions and cost efficient network-to-network calling rates, cellular subscribers in the Philippines have increasingly been subscribing to the services of multiple wireless operators. As a result, the increases in 2011 and 2010 in our cellular subscriber base and the penetration rate of the wireless market in the Philippines were primarily attributable to such "multiple SIM card ownership."

### ***Local Exchange Service***

The concerted nationwide local exchange line build-out by various providers, as mandated by the Philippine government, significantly increased the number of fixed line subscribers in the country and resulted in wider access to basic telephone service. The growth of the fixed line market, however, remained weak due to the surge in demand for cellular services and, in the past, the general sluggishness of the Philippine economy. Nevertheless, we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face one or two competitors. Our principal competitors in the local exchange market are BayanTel and Globe, which provide local exchange service through both fixed and fixed wireless landline services.

There are currently four major fixed wireless landline services in the market that resemble a cellular phone service but provide the same tariff structure as a fixed line service such as the charging of monthly service fees. The earliest of such service was provided by Digitel, now part of PLDT, in the fourth quarter of 2005 at a fixed monthly rate of Php672. This service is provided mostly in selected areas of Southern and Northern Luzon where Digitel did not have fixed cable facilities. Globe quickly followed suit with a similar service at a monthly rate of Php995 which bundled a wireless landline and broadband internet connection of up to 384 kbps. This service is offered in limited areas of Metropolitan Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

BayanTel launched a similar service at lower rates in the second half of 2006, which service maintains two major price points open to both residential and business subscribers. This service is available under two plans, a plan at a monthly rate of Php699 for customers in Metro Manila and a plan at a monthly rate of Php599 for customers in selected regional areas of the Philippines.

In March 2007, we introduced the *PLP*, a postpaid fixed wireless service which was initially available only in regional areas where there were no available PLDT fixed cable facilities. There are two plans being offered for the *PLP* postpaid regular service: (a) Plan 600 with 600 free local outgoing minutes; and (b) Plan 1,000 with 1,000 free local outgoing minutes, and a charge of Php1 per minute in excess of free minutes for both plans. In March 2008, we introduced the prepaid variant of the *PLP*. There are two load plans being offered for the *PLP* prepaid service: (a) Php300 load denomination with free 150 local outgoing minutes; and (b) Php600 load denomination with free 600 local outgoing minutes. Both prepaid plans include unlimited incoming calls for one month, and charges Php2 per minute and Php1 per minute in excess of free local outgoing minutes for Php300 and Php600 denominations, respectively.

### ***International Long Distance Service***

There are 11 licensed international gateway facility operators in the country, including us. While we still maintain a leadership position in this highly competitive service segment of the industry, our market share in recent years has declined as a result of: (1) competition from other international gateway facility operators and illegal international simple resale operators; (2) an increase in inbound and outbound international long distance calls terminating to and originating from the growing number of cellular subscribers; and (3) the popularity of alternative and cheaper modes of communication such as text messaging, e-mail, internet telephony and the establishment of virtual private networks for several corporate entities, further heightening the competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and cellular businesses, which are the origination points of outbound international calls. We also have introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers. Globe has also launched new pricing schemes to grow its outbound call volumes.

With respect to inbound calls into the Philippines, we have been pursuing a number of initiatives to mitigate the decline in our inbound telecommunications traffic, including lowering our termination rates and identifying and limiting unauthorized traffic termination. In addition, we have also established presence, through our wholly-owned subsidiary PLDT Global, in key cities overseas to identify and capture Philippine terminating traffic at its source, maximize the use of our international facilities and develop alternative sources of revenue.

### ***National Long Distance Service***

Our national long distance service business has been negatively affected by the growing number of cellular subscribers in the Philippines and the widespread availability and growing popularity of alternative economical non-voice methods of communication, particularly text messaging and e-mail. In addition, various ISPs have launched voice services via the internet to their subscribers nationwide.

While national long distance call volumes have been declining, we have remained a leading provider of national long distance service in the Philippines due to our significant subscriber base and ownership of the Philippines' most extensive transmission network.

PLDT launches from time to time promotions bundled with our other products to attract new subscribers including free PLDT-to-PLDT NDD service.

### ***Data and Other Network Services***

The market for data and other network services is a growing segment in the Philippine telecommunications industry. The growth is spurred by the significant growth in consumer and retail broadband internet access, enterprise resource planning applications, customer relationship management, knowledge processing solutions, online gaming and other e-services that drive the need for broadband and internet-protocol based solutions both here and abroad. Our major competitors in this area are Globe and BayanTel. The principal

bases of competition in data services market are coverage, price, value for money, bundles or free gifts, customer service and quality of service.

### **Principal Competitors**

The table below sets out our principal competitors' market share and other relevant information for the year 2011:

	<u>Asset Base</u>	<u>Operating Revenues</u>	<u>Net Income (Loss)</u> (in millions)	<u>Market Share<sup>(1)</sup></u>	
				<u>Fixed Line<sup>(2)</sup></u>	<u>Cellular</u>
Globe <sup>(3)</sup>	Php128,466	Php18,061	Php2,495	20%	32%
BayanTel <sup>(4)</sup>	-	-	-	-	-

<sup>(1)</sup> Based on subscriber base.

<sup>(2)</sup> Estimates based on publicly available information.

<sup>(3)</sup> Based on unaudited 3Q2011 Form 17-Q filed with the PSE and SEC, the latest public filing available.

<sup>(4)</sup> No publicly available information.

### **Competitive Strengths**

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

- Recognized Brands.** PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for over 80 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. The *Talk 'N Text* brand, which is provided using Smart's network, has also gained significant recognition as a price-competitive brand. Our brand range was further strengthened with the acquisition of DMPI and its cellular brand, *Sun Cellular*. Since its launch in 2003, *Sun Cellular* has built considerable brand equity as a provider of "unlimited" services. Having a range of strong and recognizable brands allows us to offer to various market segments differentiated products and services that suit customers' budgets and usage preferences.
- Leading Market Shares.** With approximately 69 million fixed line, cellular and broadband subscribers as at December 31, 2011, we have leading market positions in each of the fixed line, cellular and broadband markets in the Philippines in terms of both subscribers and revenues.
- Diversified Revenue Sources.** We derive our revenues from our four business segments, namely, wireless, fixed line, BPO and other businesses, with wireless contributing 60%, fixed line 35% and BPO 5% to our total revenues in 2011. Revenue sources of our wireless business include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Revenues from our wireless business are from cellular voice and data services. These have been declining in the past few years as a result of the popularity of bucket and unlimited plans which have resulted in increasing traffic on the network albeit with declining yields. The decline in our cellular revenues are somewhat mitigated by the increase in revenues from wireless broadband. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. In our BPO business, sources of revenue include knowledge processing solutions and customer relationship management businesses. Revenues from our fixed line services, such as local exchange, national and international long distance, have been declining over the past years due to pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution of our data and other network service. Fixed line revenues represent 35% of our total revenues in 2011, 2010, and 2009.
- Advanced Integrated Network.** With the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We aim to enhance the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. This includes the build out of a second network that has been designed to contain the increase in voice

traffic resulting from lower cost voice offers under our *Red Mobile* brand. We believe this network and brand strategy will allow the quality of service on our main network serving our *Smart Prepaid* and *Talk 'N Text* brands to be maintained. In addition, we continue the upgrade of our fixed line network to an all IP-based NGN, invest in increased international bandwidth capacity, and expansion of our 3G and wireless broadband networks in order to expand our data/broadband capabilities to attract more broadband subscribers by offering a better quality of experience. Included in our modernization program are investments to upgrade our IT capabilities, including our Operating Support Systems, Business Support Systems and Intelligent Networks, all of which are essential in enabling us to offer more relevant services to our customers..

- *Innovative Products and Services.* We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Money*, *Smart Load* and *Pasa Load*. *Smart Load* is an “over-the-air” electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term “pasa” means “transfer”) is a derivative service of *Smart Load* that allows load transfers to other *Smart Prepaid* and *Talk 'N Text* subscribers.
- *Strong Strategic Relationships.* We have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

### **Intellectual Property Rights**

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases.

### **Major Suppliers**

Substantially all the telecommunications equipment thus far obtained in connection with our development programs has been purchased outside the Philippines, and we expect that a large portion of the equipment requirements of our future development programs will also be purchased from foreign sources. Major vendor for Smart’s modernization project are Huawei Technologies, Co. Ltd., Nokia Siemens Networks and Ericsson Telecommunications, Inc., while for mobile devices, principal suppliers are Apple South Asia and Samsung Electronics Co., Ltd. Likewise, for PLDT’s continued NGN roll-out, expansion of optical transmission backbone and core equipment with Huawei Technologies, Co., Ltd. and CISCO as the principal suppliers for hardware and software equipment. FTTH roll-out was also initiated in 2011 with Fiberhome as a principal supplier for this endeavor.

### **Governmental Regulations**

As a public utility, we are subject to governmental regulations with respect to our operations, services, rates and ownership. We believe that we are in compliance with all applicable governmental regulations and that our relations with government regulators are satisfactory despite our protests against NTC’s assessments of certain fees see Item 3. “Legal Proceedings – NTC SRF”. For further discussion on governmental laws and regulations affecting our business, see Item 6. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risks and Uncertainties – Risks Relating to Us – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises and rates.”

### **Compliance with Environmental Laws**

We have not been subject to any material fines or legal or regulatory action involving noncompliance with environmental regulations of the Philippines. We are not aware of any noncompliance in any material respect with relevant environmental protection regulations.

## Employees and Labor Relations

As at December 31, 2011, we had 34,116 employees within the PLDT Group, including Digitel, with 8,043, 11,409 and 14,664 employees in our wireless, fixed line, BPO and other groups, respectively. PLDT had 7,067 employees as at December 31, 2011, of which 21% were rank-and-file employees, 73% were management/supervisory staff and 6% were executives. This number represents an increase of 59, or approximately 1%, from the staff level as at December 31, 2010. From a peak of 20,312 employees, as at December 31, 1994, PLDT's number of employees declined by 13,245 employees, or 65%, as at December 31, 2011.

We and our business units had the following employees as at December 31 of each of the following years:

	2011	2010	2009
PLDT Group	34,116	28,770	29,035
Wireless	8,043	5,165	5,507
Fixed Line	11,409	9,572	9,841
LEC	9,072	7,395	7,947
Others	2,337	2,177	1,894
BPO	14,664	14,033	13,687
PLDT Only	7,067	7,008	7,543

The decrease in the number of employees within the PLDT Group from 2009 to 2010 primarily resulted from the MRP in our fixed line and wireless businesses, while the increase in headcount from 2010 to 2011 was primarily due to the inclusion of Digitel's employees resulting from its acquisition on October 26, 2011.

PLDT has three employee unions, representing in the aggregate 4,796, or 14% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees' union, our supervisors' union and our sales supervisors' union to be good.

On October 7, 2009, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees' union, concluded and signed a new three-year CBA, covering the period from November 9, 2009 to November 8, 2012. This CBA provides each member a signing bonus equivalent to one month's salary (computed at the salary rate prevailing prior to November 9, 2009) plus Php15,000; expeditious agreement bonus of Php20,000; increase of the monthly salary of Php2,500, Php2,600 and Php2,800 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php8,000 to Php9,000; an increase in the amount of coverage under the group life insurance plan from Php650,000 to Php750,000; and Php45,000 funeral assistance for the death of a dependent. Other provisions of this CBA include increases in the rice subsidy and professional fee subsidy for dependent's hospitalization.

On December 22, 2010, a CBA was signed by PLDT and *Gabay ng Unyon sa Telekomunikasyon ng mga Superbisor*, our supervisors' union or GUTS, covering a three-year period from January 1, 2011 to December 31, 2013. This CBA provides for increases of the monthly salary by 8%, 9% and 9% of basic pay for the first, second and third year of the CBA, respectively, or Php3,000 whichever is higher; a goodwill signing and expeditious agreement bonuses of Php30,000 and Php43,000, respectively; an increase in the yearly Christmas gift certificate from Php9,000 to Php10,000; Php45,000 funeral assistance for the death of a qualified dependent; and additional contribution of Php2 million to the Educational Trust Fund. Other provisions include increases in rice subsidy, *per diem* allowance and hospitalization benefits for dependents.

On January 6, 2011, a new CBA covering a three-year period starting from January 1, 2011 was signed by PLDT and PLDT Sales Supervisors' Union, or PSSU, which provided for salary increases for the period from January 1, 2011 to December 31, 2013. This CBA provides for increases of the monthly salary by 8%, 9% and 9% of basic pay for the first, second and third year of the CBA, respectively, or Php3,000 whichever is higher; a one-time lump sum clothing accessory allowance of Php8,000; a goodwill signing bonus of Php30,000 and an expeditious agreement bonus of Php43,000; an increase in the yearly Christmas gift certificate from Php9,000 to Php10,000; Php45,000 funeral assistance for the death of a qualified dependent; and additional contribution of Php350,000 to the Educational Trust Fund. Other provisions included increases in rice subsidy, *per diem* allowance and hospitalization benefits for dependents.



## ***Pension and Retirement Benefits***

### ***Defined Benefit Plans***

We have defined benefit pension plans, covering substantially all of our permanent and regular employees, except the employees of Smart and its subsidiary, I-Contacts. The plans require contributions to be made to a separate administrative fund.

PLDT has a trustee-managed, non-contributory defined benefit pension plan covering all permanent and regular employees. The benefit pension plan provides benefits upon normal retirement beginning at age 65, early retirement beginning at age 50 or completion of at least 30 years of credited service, voluntary resignation with completion of at least 15 years of credited service, total and physical disability, death and involuntary separation. Benefits are based on the employee's final monthly basic salary and length of service.

The normal retirement benefit is equal to a percentage of the final monthly basic salary per year of credited service. The percentage is 100% for those with less than 15 years of service at retirement and 125% for those with 15 years of service at retirement. Thereafter, the percentage increases by 5% for every additional year of credited service up to a maximum of 200%. Early retirement benefit is equal to the accrued normal retirement benefit based on salary and service at the date of early retirement.

In the event the benefit pension plan's assets are insufficient to pay the required retirement benefits, PLDT would be obligated to fund the amount of the shortfall. In addition, claims of PLDT's employees for retirement benefits that have accrued would rank above the claims of all other creditors of PLDT, in the event of PLDT's bankruptcy or liquidation.

### ***Defined Contribution Plan***

Smart and certain of its subsidiaries record expenses for their contribution to the defined contribution plans when the employee renders service to Smart and certain of its subsidiaries, essentially coinciding with their cash contributions to the plans.

Smart and certain of its subsidiaries contributions to the plan are made based on the employee's years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and I-Contacts regularly monitor compliance with R.A. 7641, otherwise known as "The Retirement Pay Law". As at December 31, 2011 and 2010, Smart and I-Contacts were in compliance with the requirements of R.A. 7641.

Total consolidated pension benefit income amounted to Php38 million for the year ended December 31, 2011 and total consolidated pension benefit costs amounted to Php236 million and Php1,306 million for the years ended December 31, 2010 and 2009, respectively. Unrecognized net actuarial gains amounted to Php2,886 million and Php479 million as at December 31, 2011 and 2010, respectively. The prepaid benefit costs amounted to Php5,654 million and Php5,333 million as at December 31, 2011 and 2010, respectively. The accrued benefit costs amounted to Php496 million and Php415 million as at December 31, 2011 and 2010, respectively. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see *Note 3 – Management's Use of Judgments, Estimates and Assumptions*, *Note 5 – Income and Expenses* and *Note 25 – Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 7.

## **Item 2. Description of Property**

We own four office buildings located in Makati City and own and operate 320 exchanges nationwide, of which 66 are located in the Metropolitan Manila area, including DMPI's 19 exchanges. The remaining 254 exchanges are located in cities and small municipalities outside Metropolitan Manila area, including DMPI's 30 exchanges. We also own radio transmitting and receiving equipment used for international and domestic communications. As at December 31, 2011, we had 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 4,918 fixed wireless broadband-enabled base stations, which include DMPI's 4,414 cell sites, 4,376

cellular/mobile broadband base stations and 2,132 fixed wireless broadband-enabled base stations.

As at December 31, 2011, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 71% consisted of cable, wire and cellular facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;
- 13% consisted of central office equipment, including international gateway facilities, pure national toll exchanges and combined local and toll exchanges;
- 10% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 1% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and
- 5% consisted of other work equipment.

For more information on these properties, see *Note 9 – Property, Plant and Equipment* to the accompanying consolidated financial statements in Item 7.

These properties are located in areas where our subscribers are being served. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The majority of our connecting lines are above or under public streets and properties owned by others. For example, for many years, the PLDT Group has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically five-year and more recently one-year terms.

PLDT's, Smart's, PCEV's and Digitel's properties are free from any mortgage, charge, pledge, lien or encumbrance; however, a portion of ePLDT's property is subject to liens.

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipments. For more information on the obligations relating to these properties and long-term obligations, see *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 7.

For 2012, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2012 budget for consolidated capital expenditures is approximately Php38.1 billion, of which approximately Php13 billion is budgeted to be spent by PLDT, approximately Php18 billion is budgeted to be spent by Smart; approximately Php6 billion is budgeted to be spent by Digitel; and the balance represents the budgeted capital spending of our other subsidiaries. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. Smart's capital spending is focused on expanding and upgrading its transmission network from the backbone up to last mile facilities to meet increased demand for cellular and broadband services in a highly-competitive playing field. Smart's 2012 capital investments are driven by rapidly-evolving technologies in both voice- and data-centric environments, improvement of quality and subscriber experience, expansion of capacity and achieving operational and cost efficiencies with its accelerated network modernization program. The aggressive rollout, expansion and modernization programs will likewise prepare Smart for the continued massive growth and demand in broadband business. Digitel's capital spending is intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas.

### **Item 3. Legal Proceedings**

Except as disclosed in the following paragraphs, neither PLDT nor any of its subsidiaries is a party to, and none of their respective properties is subject to, any pending legal proceedings that PLDT considers to be potentially material to its and its subsidiaries' business.

#### **NTC SRF**

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC have been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT's capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on December 4, 2007, held that the computation of the SRF should be based on the outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, the NTC assessed PLDT the total amount of Php2,870 million as SRF, which included penalties and interest. On April 3, 2008, PLDT paid NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but did not pay the penalties and interest assessed by the NTC. PLDT, through counsel, believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments of the same. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the Petition, praying that the NTC be restrained from enforcing or implementing its assessment letter of February 29, 2008, and demand letters dated April 14, 2008 and June 18, 2008, all demanding payment of SRF including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said assessment letter and demand letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's letters-assessments dated February 29, 2008, April 14, 2008 and June 18, 2008. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals. Instead, the NTC, through the Solicitor General, filed a petition for review directly with the Supreme Court. PLDT received a copy of the petition on July 29, 2010, and after receiving the order of the Supreme Court to file its comment, filed its Comment on the petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011, which was received by PLDT on September 6, 2011. PLDT filed a Rejoinder on October 12, 2011. This case is still pending with the Supreme Court.

#### ***Matters Relating to a Third Party Aggregator***

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary, Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

In light of the nature of the allegations and out of an abundance of caution, PLDT's Board of Directors referred the Draft for review by the Audit Committee. The Audit Committee appointed an independent Investigation Committee to oversee an investigation into the allegations contained in the Draft. The Audit Committee retained independent counsel to lead in the investigation. To preserve the confidential nature of the inquiry, the investigation was limited to internal sources at PLDT, including current PLDT and Smart employees, internal records and discrete inquiries and public records searches.

The independent counsel, under the oversight of the Investigation Committee, has concluded on the basis of the evidence within the control of PLDT or otherwise reasonably available, that: (i) while the investigation cannot definitively exclude the possibility, the investigation has found no evidence to establish that PLDT's officers and employees were personally involved in the creation of the third-party entity referred to in the Draft and has found no evidence of any improper personal financial benefit or gain by these officers and employees, directly or indirectly from such third party entity; and (ii) while Smart had substantial business relationships with various third-party aggregators of long-distance telephone traffic during the relevant period, including the third-party entity referred to in the Draft (with which Smart ceased doing business in 2008), there is no evidence that the relationship with such third-party entity in fact resulted in a material adverse impact on PLDT's revenues during the relevant period and may have in fact benefited PLDT overall through an increase in overall call volume.

On May 7, 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee.

#### ***Matters Relating to Gamboa Case***

On June 29, 2011, the Supreme Court of the Philippines promulgated a Decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "Gamboa Case"), where the Court held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". The Decision of the Supreme Court reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60% to 40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution.

While PLDT is not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in Philippine Long Distance Telephone Company, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

The case is set for oral arguments on April 17, 2012. To the best of PLDT's knowledge, the Philippine SEC has not commenced any proceeding to determine if PLDT is in violation of Section 11, Article XII of the 1987 Constitution. A finding by the Philippine SEC that there is a violation of Section 11, Article XII of the 1987 Constitution by PLDT may subject the latter to sanctions under Philippine law, including possible revocation of its franchise.

Nonetheless, on July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized preferred capital into preferred shares with full voting rights, or Voting Preferred Shares, and serial preferred shares without voting rights, and other conforming amendments, or Amendments to the Articles. The Amendments to the Articles will require the approval by the stockholders of PLDT and the approval of the Philippine SEC. Upon the approval of the Amendments to the Articles by the Philippine SEC, up to 150,000,000 Voting Preferred Shares could be initially issued by the Board to, among others, Philippine citizens and Philippine corporations at least 60% of the capital stock entitled to vote is owned or held by such citizens, as and when the Board determines such issuance to be necessary to avoid any disruptions on PLDT's operations and transactions and to protect the interests of PLDT and its stakeholders. Upon issuance of such Voting Preferred Shares to Filipinos and Filipino-owned entities, the total foreign equity in the total resulting voting shares of PLDT will be reduced from the current 59% to about 35%. A Special Meeting of Stockholders of PLDT was scheduled on September 20, 2011, at which meeting the Amendments to the Articles were supposed to be submitted to PLDT's stockholders for approval. However, the Special Meeting was cancelled due to an anticipated lack of quorum. In the Special Meeting of Stockholders held

on March 22, 2012, the Amendments to the Articles were approved by the holders of more than two-thirds (2/3) of the outstanding capital stock (common and preferred) of PLDT. The Amended Articles of Incorporation will be filed with the Philippine SEC in due time.

## **Taxation**

### **Local Business and Franchise Taxes**

PLDT, Smart, PCEV and Digitel currently face various local business and franchise tax assessments by different local government units.

PLDT, Smart, PCEV and Digitel believe that under Philippine laws then prevailing, they are exempt from payment of local franchise and business taxes to local government units and are contesting the assessment of these taxes in some of these cases.

### ***Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI***

Since 1990 (up to present), PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

Other disclosures required by *PAS 37, Provisions, Contingent Liabilities and Contingent Assets* were not provided as it may prejudice our position in on-going claims, litigations and assessments.

For more information, see *Note 26 – Provisions and Contingencies* to the accompanying consolidated financial statements in Item 7.

### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this annual report.

## **PART II – OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters**

#### **Market Information**

#### **Common Capital Stock and ADSs**

The shares of common stock of PLDT are listed and traded on the PSE and, prior to October 19, 1994, were listed and traded on the American Stock Exchange and Pacific Exchange in the United States. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the Depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT’s ADR Facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of “PHI”.

For the period from January 1 to February 29, 2012, a total of 7.3 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 1.8 million ADSs on the NYSE.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel, see *Note 13 – Business Combinations – PLDT’s Acquisition of Digitel* to the accompanying consolidated financial statements in Item 7.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

As at February 29, 2012, 10,837 stockholders were Philippine persons and held approximately 41.22% of PLDT's common capital stock. In addition, as at February 29, 2012, there were a total of approximately 54 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 323 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2011 and 2010 and for the first two months of 2012 were as follows:

	<u>Philippine Stock Exchange</u>		<u>New York Stock Exchange</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
2012				
Two months	Php2,886.00	Php2,542.00	US\$67.50	US\$58.46
January	2,886.00	2,542.00	67.50	58.46
February	2,886.00	2,720.00	66.89	63.13
2011				
First Quarter	2,550.00	1,990.00	58.80	46.08
Second Quarter	2,496.00	2,202.00	58.16	52.16
Third Quarter	2,434.00	2,096.00	58.68	47.90
Fourth Quarter	2,598.00	2,116.00	58.95	47.99
2010				
First Quarter	2,775.00	2,420.00	60.65	53.05
Second Quarter	2,540.00	2,320.00	57.49	50.04
Third Quarter	2,630.00	2,355.00	59.92	51.47
Fourth Quarter	2,764.00	2,360.00	64.35	53.61

## Holders

As at February 29, 2012, there were 12,349 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1. PCD Nominee Corporation	Various	36,899,270	Php184,496,350	30.78
	Filipino	29,605,497		
2. J. P. Morgan Asset Holdings (Hong Kong) Ltd.	Chinese	49,023,861	245,119,305	22.69
3. Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	12.05
4. NTT DOCOMO, Inc.	Japanese	22,796,902	113,984,510	10.55
5. Metro Pacific Resources, Inc.	Filipino	21,556,676	107,783,380	9.98
6. NTT Communications Corporation	Japanese	12,633,487	63,167,435	5.85
7. Social Security System, or SSS	Filipino	8,338,379	41,691,895	3.86
8. HSBC OBO A/C 000-370817-550	American	4,914,862	24,574,310	2.27
9. Pan-Malayan Management & Inv Corp.	Filipino	640,000	3,200,000	0.30
10. Manuel V. Pangilinan	Filipino	238,450	1,192,250	0.11
11. Albert F. &/or Margaret Gretchen V. del Rosario	Filipino	150,004	750,020	0.07
12. Alfonso T. Yuchengco	Filipino	118,458	592,290	0.05
13. Edward &/or Anita Tortorici	American	96,874	484,370	0.04
14. Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03
15. JDC Investment Realty Enterprise, Inc.	Filipino	47,708	238,540	0.02
16. Par Investment & Realty Corporation	Filipino	38,390	191,950	0.02
17. Hare & Company	Filipino	34,811	174,055	0.02
18. Pacific Fund, Inc.	American	30,678	153,390	0.01
19. Sze Ye Se	Filipino	30,000	150,000	0.01
20. Maurice Verstraete	Filipino	29,744	148,720	0.01
		<b>213,318,182</b>	<b>Php1,066,590,910</b>	

## Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2009, 2010 and 2011:

Earnings	Date			Amount	
	Approved	Record	Payable	Per share (in pesos)	Total Declared (in millions)
2009	August 4, 2009	August 20, 2009	September 22, 2009	77	Php14,384
2009	March 2, 2010	March 17, 2010	April 20, 2010	76	14,197
2009	March 2, 2010	March 17, 2010	April 20, 2010	65	12,142
				218	40,723
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	14,570
2010	March 1, 2011	March 16, 2011	April 19, 2011	78	14,567
2010	March 1, 2011	March 16, 2011	April 19, 2011	66	12,326
				222	41,463
2011	August 2, 2011	August 31, 2011	September 27, 2011	78	14,567
2011	March 6, 2012	March 20, 2012	April 20, 2012	63	13,635
2011	March 6, 2012	March 20, 2012	April 20, 2012	48	10,376
				189	Php38,578

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. We also take into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in *Note 19 – Equity* and *Note 20 – Interest-bearing Financial Liabilities* to the accompanying consolidated financial statements in Item 7. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings, representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until the accumulated equity is received in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, which acts as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

## Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes as at and for the three years in the period ended December 31, 2011 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.*

### Selected Financial Data and Key Performance Indicators

	2011	2010	2009
	(in millions)		
<b>Income Statement Data:</b>			
Revenues .....	Php156,603	Php158,387	Php162,023
Expenses .....	113,382	102,831	104,141
Other expenses .....	544	1,871	3,043
Income before income tax .....	42,677	53,685	54,839
Net income.....	31,637	40,259	40,095
Core income .....	39,035	42,028	41,138
EBITDA .....	79,959	83,717	86,194
EBITDA margin .....	52%	54%	54%
Reported earnings per common share:			
Basic.....	163.24	212.85	210.38
Diluted.....	163.10	212.85	210.36
Core earnings per common share:			
Basic.....	201.58	222.55	217.65
Diluted.....	201.41	222.55	217.62
<b>Balance Sheet Data:</b>			
Total assets .....	395,646	277,815	280,148
Property, plant and equipment – net .....	197,731	163,184	161,256
Cash and cash equivalents and short-term investments.....	46,615	37,347	42,143
Total equity attributable to equity holders of PLDT.....	151,833	97,069	98,575
Notes payable and long-term debt, including current portion	117,275	89,646	98,729
Net debt to equity ratio.....	0.47x	0.54x	0.57x
<b>Other Data:</b>			
Net cash provided by operating activities .....	79,209	77,260	74,386
Net cash used in investing activities .....	29,712	23,283	49,132
Capital expenditures .....	31,207	28,766	28,069
Net cash used in financing activities .....	40,204	55,322	20,293

### *Change in the Presentation of our Outbound Revenues*

In 2011, we changed the presentation of our outbound revenues to gross amounts before charges billed to us, where applicable, by other carriers. In doing so, interconnection costs are then presented as a separate line item in the expense section of our consolidated income statements. Prior to 2011, we presented outbound revenues net of the share of other carriers. We made this change to present outbound revenues on a gross basis to more correctly present and align our consolidated income statement presentation with the predominant global practice in the telecommunications industry. We accounted for the change retroactively and accordingly restated our comparative consolidated income statements. The change is for presentation only and has no impact on our consolidated net income, earnings per share, cash flows and financial position. See *Note 2 – Summary of Significant Accounting Policies* to the accompanying consolidated financial statements in Item 7.



## 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 four 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, CURE, and DMPI, which is the operator of the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel (PLDT acquired a controlling interest in Digitel on October 26, 2011 and through a series of transactions holds approximately 99.5% of the outstanding common stock of Digitel as at March 22, 2012), our cellular service providers; SBI and PDSI, our wireless broadband service providers; Wolfpac and Chikka and its subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global, and Digitel, all of which together account for approximately 17% 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 and AGS Group; netGames, Inc.; and bills printing and other VAS-related services provided by ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% on August 24, 2011). ePLDT disposed of its 75% interest in Digital Paradise, a provider of internet access services, on April 1, 2011 and its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011;
- *BPO* — knowledge processing solutions provided by SPi Group; and customer relationship management provided by SPi CRM and Infocom (ePLDT transferred the internet business of Infocom to PLDT on July 1, 2011); and
- *Others* — PCEV, an investment holding company.

See *Note 10 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 7 for further discussion.

Key performance indicators and drivers that our management uses for the management of our business include, among others, the general economic conditions in the Philippines, our subscriber base, traffic volumes, and interconnection arrangements.

In addition, our results of operations and financial position are with increasing significance affected by fluctuations of the Philippine peso against the U.S. dollar. Since a substantial portion of our indebtedness is denominated in U.S. dollars, a depreciation or appreciation of the Philippine peso against the U.S. dollar as at the end of the most recent fiscal year compared to the end of the previous fiscal year may result in our recognition of significant foreign exchange losses or gains, respectively. For example, the Philippine peso appreciated against the U.S. dollar from Php43.81 as at December 31, 2010 to Php43.92 as at December 31, 2011, as a result of which we recognized in 2011 foreign exchange losses in the amount of Php744 million, representing a decrease of Php2,551 million from Php1,807 million foreign exchange gains recognized in 2010. Moreover, since approximately 30% of our revenues are either denominated in U.S. dollars or linked to the U.S. dollar, a depreciation or appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increases or decreases our revenues in Philippine peso terms and increases or decreases our cash flow from operations, respectively. For example, the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.31 in 2011 from Php45.12 in 2010 decreased our U.S. dollar and U.S. dollar-linked revenues in Philippine peso terms. Furthermore, fluctuations of the Philippine peso against the U.S. dollar resulted in gains or losses on our derivative financial instruments, which with increasing significance affect our results of operations and financial position. For example, we recognized net gains on derivative financial instruments of Php197 million in 2011 from net losses on derivative financial instruments of Php1,741 million in

2010.

## **Performance Indicators**

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

### *EBITDA*

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with IFRS or United States GAAP. EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should EBITDA be considered an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to any other measure determined in accordance with IFRS. Unlike net income, 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 IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

A reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2011, 2010 and 2009 is presented in *Note 4 – Operating Segment Information* to the accompanying consolidated financial statements in Item 7.

### *Core Income*

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis 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. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2011, 2010 and 2009 is presented in *Note 4 – Operating Segment Information* to the accompanying consolidated financial statements in Item 7.

## Management's Financial Review

We use our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2011, 2010 and 2009 is set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
	(in millions)		
Consolidated adjusted EBITDA	Php79,959	Php83,717	Php86,194
Depreciation and amortization	(27,957)	(26,277)	(25,607)
Asset impairment on noncurrent assets	(8,517)	(1,496)	(2,337)
Equity share in net earnings of associates and joint ventures	2,035	1,408	2
Interest income	1,372	1,200	1,539
Gains (losses) on derivative financial instruments – net	197	(1,741)	(1,006)
Foreign exchange gains (losses) – net	(744)	1,807	909
Financing costs – net	(6,491)	(6,698)	(6,556)
Amortization of intangible assets	(264)	(388)	(368)
Other income	3,087	2,153	2,069
Consolidated income before income tax	42,677	53,685	54,839
Provision for income tax	11,040	13,426	14,744
Consolidated net income for the year	Php31,637	Php40,259	Php40,095

<sup>(1)</sup> Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2011, 2010 and 2009:

	2011 <sup>(1)</sup>	2010	2009
	(in millions)		
Consolidated core income for the year	Php39,035	Php42,028	Php41,138
Gains (losses) on derivative financial instruments – net, excluding hedge cost	560	(1,307)	(407)
Core income adjustment on equity share in net earnings of associates and joint ventures	(476)	(699)	(136)
Foreign exchange gains (losses) – net	(750)	1,819	908
Asset impairment on noncurrent assets – net of share of noncontrolling interest	(8,517)	(1,492)	(1,948)
Net tax effect of aforementioned adjustments	1,612	(132)	607
Others	233	–	(381)
Net income for the year attributable to equity holders of PLDT	31,697	40,217	39,781
Net income (loss) for the year attributable to noncontrolling interests	(60)	42	314
Consolidated net income for the year	Php31,637	Php40,259	Php40,095

<sup>(1)</sup> Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.

## Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2011, 2010 and 2009. In each of the years ended December 31, 2011 and 2010, a majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	<u>Wireless</u>	<u>Fixed Line</u>	<u>BPO</u>	<u>Others</u>	<u>Inter-segment Transactions</u>	<u>Consolidated</u>
<b>December 31, 2011<sup>(1)</sup></b>						
Revenues	Php103,538	Php60,006	Php8,588	Php-	(Php15,529)	Php156,603
Expenses	71,049	50,620	7,598	11	(15,896)	113,382
Other income (expenses)	(1,694)	(593)	112	1,998	(367)	(544)
Income before income tax	30,795	8,793	1,102	1,987	-	42,677
Provision for income tax	8,429	2,491	118	2	-	11,040
Net income /Segment profit	22,366	6,302	984	1,985	-	31,637
EBITDA	55,393	22,675	1,558	(11)	344	79,959
EBITDA margin <sup>(2)</sup>	54%	39%	18%	(100%)	-	52%
Core income	29,903	5,765	906	2,461	-	39,035
<b>December 31, 2010<sup>(3)</sup></b>						
Revenues	105,381	60,158	8,112	-	(15,264)	158,387
Expenses	59,807	50,243	8,481	19	(15,719)	102,831
Other income (expenses)	(136)	(2,694)	43	1,371	(455)	(1,871)
Income before income tax	45,438	7,221	(326)	1,352	-	53,685
Provision for income tax	11,413	2,076	(64)	1	-	13,426
Net income /Segment profit	34,025	5,145	(262)	1,351	-	40,259
EBITDA	58,964	23,047	1,270	(19)	455	83,717
EBITDA margin <sup>(2)</sup>	57%	39%	16%	(100%)	-	54%
Core income	33,352	5,845	765	2,066	-	42,028
<b>December 31, 2009<sup>(3)</sup></b>						
Revenues	108,367	61,930	8,534	-	(16,808)	162,023
Expenses	63,275	49,713	8,282	-	(17,129)	104,141
Other income (expenses)	(813)	(3,373)	(498)	1,962	(321)	(3,043)
Income before income tax	44,279	8,844	(246)	1,962	-	54,839
Provision for income tax	12,456	2,228	2	58	-	14,744
Net income /Segment profit	31,823	6,616	(248)	1,904	-	40,095
EBITDA	59,411	25,512	950	-	321	86,194
EBITDA margin <sup>(2)</sup>	56%	42%	11%	-	-	54%
Core income	31,715	8,344	(230)	1,311	(2)	41,138

<sup>(1)</sup> Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> EBITDA margin is measured as EBITDA divided by service revenues.

<sup>(3)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

The table below shows the contribution by business segment of the results of the Digital Group since its acquisition on October 26, 2011 to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the period from October 26, 2011 to December 31, 2011.

	<u>Wireless</u>	<u>Fixed Line</u>	<u>Consolidated</u>	<u>Intercompany Transactions</u>	<u>Incremental Effect on PLDT Group</u>
	(in millions)				
<b>For the period from October 26, 2011 to December 31, 2011</b>					
Revenues	Php3,184	Php706	Php3,890	(Php45)	Php3,845
Expenses	3,083	726	3,809	(24)	3,785
Other expenses	764	2,240	3,004	(2,062)	942
Loss before income tax	663	2,260	2,923	(2,041)	882
Provision for income tax	258	18	276	-	276
Net loss /Segment profit	405	2,242	2,647	(2,041)	606
EBITDA	1,137	(60)	1,077	(21)	1,056
EBITDA margin <sup>(1)</sup>	37%	(8%)	28%	-	28%
Core income	154	(397)	(243)	234	(9)

<sup>(1)</sup> EBITDA margin is measured as EBITDA divided by service revenues for the period.

## 2011 Compared to 2010

### On a Consolidated Basis

We reported consolidated revenues of Php156,603 million in 2011, which includes revenue contribution from the Digital Group of Php3,845 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,784 million, or 1%, as compared with Php158,387 million in 2010, primarily due to a decline in our service revenues by Php2,212 million as a result of decreases in cellular and satellite revenues from our wireless business, and national long distance and local exchange services from our fixed line business. These were partially offset by higher revenues from data and other network services, as well as the higher revenue contribution of our BPO business.

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php103,538	66	Php105,381	67	(Php1,843)	(2)
Fixed line	60,006	38	60,158	38	(152)	–
BPO	8,588	6	8,112	5	476	6
Inter-segment transactions	(15,529)	(10)	(15,264)	(10)	(265)	2
Consolidated	Php156,603	100	Php158,387	100	(Php1,784)	(1)

<sup>(1)</sup> Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators."

Consolidated expenses increased by Php10,551 million, or 10%, to Php113,382 million in 2011, which includes expenses from the Digital Group of Php3,785 million for the period from October 26, 2011 to December 31, 2011, from Php102,831 million in 2010, largely as a result of higher asset impairment, selling and promotions, depreciation and amortization, taxes and licenses, repairs and maintenance, professional and other contracted services, and cost of sales, partly offset by decreases in compensation and employee benefits, and amortization of intangible assets.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php71,049	62	Php59,807	58	Php11,242	19
Fixed line	50,620	45	50,243	49	377	1
BPO	7,598	7	8,481	8	(883)	(10)
Others	11	–	19	–	(8)	(42)
Inter-segment transactions	(15,896)	(14)	(15,719)	(15)	(177)	1
Consolidated	Php113,382	100	Php102,831	100	Php10,551	10

<sup>(1)</sup> Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators."

Consolidated other expenses in 2011 amounted to Php544 million, which includes other expenses from the Digital Group of Php942 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,327 million, or 71%, from Php1,871 million in 2010, primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php197 million in 2011 as against net losses on derivative financial instruments of Php1,741 million in 2010 mainly due to the effect of wider U.S. dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly

due to the offsetting effect of overlay transactions in 2011; (ii) an increase in other income by Php934 million mainly due to the reversal of prior year's accrual of long-term incentive plan, or LTIP, pension benefit income recognized by PLDT and net gain on sale of investments in Level Up! and Digital Paradise, partly offset by lower net gain on disposal of fixed assets of Php742 million in 2011; (iii) net increase in equity share in net earnings of associates and joint ventures by Php627 million; (iv) a decrease in net financing costs by Php207 million mainly due to lower interest on loans and other related items on account of lower average interest rates and, partially offset by higher average level of loan balances by our fixed line and wireless businesses and lower capitalized interest by our wireless business; (v) higher interest income by Php172 million due to a higher average level of peso and dollar short-term investments, higher average peso and dollar interest rates and the impact of the depreciation of the Philippine peso on dollar placements; and (vi) net foreign exchange losses of Php744 million in 2011 as against net foreign exchange gains of Php1,807 million in 2010 due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the depreciation of the Philippine peso to the U.S. dollar.

The following table shows the breakdown of our consolidated other expenses by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	(Php1,694)	311	(Php136)	7	(Php1,558)	1,146
Fixed line	(593)	109	(2,694)	144	2,101	(78)
BPO	112	(21)	43	(2)	69	160
Others	1,998	(367)	1,371	(73)	627	46
Inter-segment transactions	(367)	68	(455)	24	88	(19)
Consolidated	(Php544)	100	(Php1,871)	100	(Php1,327)	(71)

<sup>(1)</sup> Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview."

Consolidated net income, including a net loss contribution from the Digitel Group of Php606 million for the period from October 26, 2011 to December 31, 2011, decreased by Php8,622 million, or 21%, to Php31,637 million in 2011, from Php40,259 million in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php1,784 million; (ii) an increase in consolidated expenses by Php11,742 million; (iii) a decrease in consolidated other expenses by Php1,327 million; and (iv) a decrease in consolidated provision for income tax by Php2,386 million, which was mainly due to lower taxable income from our wireless business. Our consolidated basic and diluted EPS decreased to Php163.24 and 163.10, respectively, in 2011 from consolidated basic and diluted EPS of 212.85 in 2010. Our weighted average number of outstanding common shares was approximately 191.4 million and 186.8 million in the years ended December 31, 2011 and 2010, respectively.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php22,366	71	Php34,025	85	(Php11,659)	(34)
Fixed line	6,302	20	5,145	13	1,157	22
BPO	984	3	(262)	(1)	1,246	476
Others	1,985	6	1,351	3	634	47
Consolidated	Php31,637	100	Php40,259	100	(Php8,622)	(21)

<sup>(1)</sup> Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview."

## EBITDA

Our consolidated EBITDA was Php79,959 million in 2011, which includes an EBITDA contribution from the Digital Group of Php1,056 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php3,758 million, or 4%, as compared with Php83,717 million in 2010, primarily due to a decline in service revenues from our wireless business, and higher operating expenses driven primarily by higher selling and promotions expenses, taxes and licenses, repairs and maintenance, and professional and other contracted services, and higher provision for uncollectible receivables.

The following table shows the breakdown of our consolidated EBITDA by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php55,393	69	Php58,964	70	(Php3,571)	(6)
Fixed line	22,675	28	23,047	28	(372)	(2)
BPO	1,558	2	1,270	2	288	23
Others	(11)	–	(19)	–	8	(42)
Inter-segment transactions	344	1	455	–	(111)	(24)
Consolidated	Php79,959	100	Php83,717	100	(Php3,758)	(4)

<sup>(1)</sup> Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview."

## Core Income

Our consolidated core income was Php39,035 million in 2011, which includes a loss from the Digital Group of Php9 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php2,993 million, or 7%, as compared with Php42,028 million in 2010, primarily due to a decrease in consolidated revenues and an increase in consolidated expenses, partially offset by decreases in consolidated other expenses and consolidated provision for income tax. Our consolidated basic and diluted core EPS also decreased to Php201.58 and Php201.41, respectively, in 2011 from Php222.55 in 2010.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Wireless	Php29,903	77	Php33,352	79	(Php3,449)	(10)
Fixed line	5,765	15	5,845	14	(80)	(1)
BPO	906	2	765	2	141	18
Others	2,461	6	2,066	5	395	19
Consolidated	Php39,035	100	Php42,028	100	(Php2,993)	(7)

<sup>(1)</sup> Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview."

## On a Business Segment Basis

### Wireless

#### Revenues

We generated revenues from our wireless business of Php103,538 million in 2011, including a contribution from DMPI of Php3,184 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,843 million, or 2%, from Php105,381 million in 2010.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2011 and 2010 by service segment:

	2011 <sup>(1)</sup>	%	Increase (Decrease)			
			2010	%	Amount	%
(in millions)						
Service Revenues:						
Cellular <sup>(2)</sup>	Php93,645	90	Php95,520	91	(Php1,875)	(2)
Wireless broadband, satellite and others						
Wireless broadband <sup>(2)</sup>	6,804	7	6,287	6	517	8
Satellite and others	1,620	2	2,217	2	(597)	(27)
	102,069	99	104,024	99	(1,955)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,469	1	1,357	1	112	8
Total Wireless Revenues	Php103,538	100	Php105,381	100	(Php1,843)	(2)

<sup>(1)</sup> Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators."

The following table summarizes the revenue contribution of DMPI for the period from October 26, 2011 to December 31, 2011 by service segment:

	2011	%
	(in millions)	
Service Revenues:		
Cellular	Php2,808	88
Wireless broadband, satellite and others		
Wireless broadband	290	9
	3,098	97
Non-Service Revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	86	3
Total Wireless Revenues	Php3,184	100

### Service Revenues

Our wireless service revenues decreased by Php1,955 million, or 2%, to Php102,069 million in 2011, which includes service revenues from DMPI of Php3,098 million for the period from October 26, 2011 to December 31, 2011, as compared with Php104,024 million in 2010, mainly as a result of lower revenues from our cellular, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as from domestic text messaging services on the back of pervasive multiple SIM card ownership, increased utilization of unlimited offers and increasing patronage of social networking sites, partially offset by an increase in international short messaging service, or SMS, as well as higher VAS revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for 2011 were lower as compared with 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues amounted to 99% in each of 2011 and 2010.

### Cellular Service

Our cellular service revenues in 2011 amounted to Php93,645 million, which includes revenues from DMPI for the period from October 26, 2011 to December 31, 2011 of Php2,808 million, a decrease of Php1,875 million, or 2%, from Php95,520 million in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in 2011 and 2010.



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

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

Smart's most recent innovation is the *Trio 20*, the first Smart-Talk 'N Text-Sun Cellular Synergy offer. For only Php20, subscribers can send 200 texts and 15 minutes of calls to other Smart, *Talk 'N Text* and *Sun Cellular* subscribers valid for 1 day.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	Increase (Decrease)	
			Amount	%
	(in millions)			
Cellular service revenues	Php93,645	Php95,520	(Php1,875)	(2)
<i>By service type</i>				
Prepaid	91,120	92,914	(1,794)	(2)
Postpaid	81,648	84,385	(2,737)	(3)
	9,472	8,529	943	11
<i>By component</i>				
Voice	91,120	92,914	(1,794)	(2)
Data	43,885	45,678	(1,793)	(4)
	47,235	47,236	(1)	-
<i>Others</i> <sup>(3)</sup>	2,525	2,606	(81)	(3)

<sup>(1)</sup> Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> 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, Wolfpac and other Smart subsidiaries.

The following table shows the breakdown of DMPI's cellular service revenues for the period from October 26, 2011 to December 31, 2011:

	2011
	(in millions)
Cellular service revenues	Php2,808
<i>By service type</i>	
Prepaid	2,757
Postpaid	1,558
	1,199
<i>By component</i>	
Voice	2,757
Data	1,537
	1,220
<i>Others</i>	51

The following table shows our other key measures of our cellular business as at and for the years ended December 31, 2011 and 2010:

	2011	2010	Increase (Decrease)	
			Amount	%
Cellular subscriber base	63,696,629	45,636,008	18,060,621	40
Prepaid	61,792,792	45,214,433	16,578,359	37
<i>Smart Prepaid</i>	26,573,137	25,293,443	1,279,694	5
<i>Talk 'N Text</i>	20,467,175	18,967,381	1,499,794	8
<i>Red Mobile</i>	1,438,384	953,609	484,775	51
<i>Sun Cellular</i> <sup>(1)</sup>	13,314,096	–	13,314,096	–
Postpaid	1,903,837	421,575	1,482,262	352
<i>Smart</i>	550,485	421,575	128,910	31
<i>Red Mobile</i> <sup>(2)</sup>	263	–	263	–
<i>Sun Cellular</i> <sup>(1)</sup>	1,353,089	–	1,353,089	–
Systemwide traffic volumes (in millions)				
Calls (in minutes) <sup>(3)</sup>	41,251	26,813	14,438	54
Domestic	38,166	23,787	14,379	60
<i>Inbound</i>	1,350	1,437	(87)	(6)
<i>Outbound</i>	36,816	22,350	14,466	65
International	3,085	3,026	59	2
<i>Inbound</i>	2,862	2,817	45	2
<i>Outbound</i>	223	209	14	7
SMS/Data count (in hits) <sup>(4)</sup>	354,135	341,113	13,022	4
Text messages	351,502	339,530	11,972	4
Domestic	350,858	339,011	11,847	3
<i>Inbound</i>	10,477	8,058	2,419	30
<i>Outbound</i>	340,381	330,953	9,428	3
Bucket-Priced/Unlimited	322,588	312,634	9,954	3
Standard	17,793	18,319	(526)	(3)
International	644	519	125	24
<i>Inbound</i>	363	211	152	72
<i>Outbound</i>	281	308	(27)	(9)
Value-Added Services	2,596	1,557	1,039	67
Financial Services	37	26	11	42

<sup>(1)</sup> *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*

<sup>(2)</sup> *Red Mobile postpaid was launched on March 17, 2011.*

<sup>(3)</sup> *Includes DMPI's minutes for the period from October 26, 2011 to December 31, 2011.*

<sup>(4)</sup> *Includes DMPI's SMS counts for the period from October 26, 2011 to December 31, 2011.*

Revenues generated from our prepaid cellular services amounted to Php81,648 million in 2011, a decrease of Php2,737 million, or 3%, as compared with Php84,385 million in 2010. Prepaid cellular service revenues accounted for 90% and 91% of cellular voice and data revenues in 2011 and 2010, respectively. Revenues generated from postpaid cellular service amounted to Php9,472 million in 2011, an increase of Php943 million, or 11%, as compared with Php8,529 million earned in 2010, and which accounted for 10% and 9% of cellular voice and data revenues in 2011 and 2010, respectively. The decrease in revenues from our prepaid cellular services was primarily due to a decline in revenues from domestic and international calls, as well as domestic SMS, partially offset by an increase in VAS revenues, mainly from internet-based VAS and *Pasa Load*, and the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

Revenues attributable to DMPI's prepaid and postpaid cellular services for the period from October 26, 2011 to December 31, 2011 was Php1,558 million and Php1,199 million, and accounted for 57% and 43% of DMPI's cellular voice and data revenues, respectively.

#### *Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php1,793 million, or 4%, to Php43,885 million in 2011 from Php45,678 million in 2010, primarily due to a decrease in domestic and international call revenues, partially offset by the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Cellular voice services accounted for 47% and 48% of our cellular service revenues in 2011 and 2010, respectively.

Cellular revenues from DMPI's voice services amounted to Php1,537 million for the period from October 26, 2011 to December 31, 2011 and accounted for 55% of DMPI's cellular service revenues in 2011. Domestic and international voice service revenues contributed Php1,396 million and Php141 million, and accounted for 91% and 9%, respectively, of DMPI's voice service revenues for the period from October 26, 2011 to December 31, 2011.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	2010 <sup>(2)</sup> (in millions)	Decrease	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php4,963	Php5,203	(Php240)	(5)
Outbound	22,442	22,807	(365)	(2)
	<u>27,405</u>	<u>28,010</u>	<u>(605)</u>	<u>(2)</u>
<i>International</i>				
Inbound	13,906	14,738	(832)	(6)
Outbound	2,574	2,930	(356)	(12)
	<u>16,480</u>	<u>17,668</u>	<u>(1,188)</u>	<u>(7)</u>
Total	<u>Php43,885</u>	<u>Php45,678</u>	<u>(Php1,793)</u>	<u>(4)</u>

<sup>(1)</sup> Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

The following table shows the breakdown of DMPI's cellular voice revenues for the period from October 26, 2011 to December 31, 2011:

	2011 (in millions)
Voice services:	
<i>Domestic</i>	Php1,396
Inbound	198
Outbound	1,198
<i>International</i>	141
Inbound	4
Outbound	137
Total	<u>Php1,537</u>

Domestic voice service revenues decreased by Php605 million, or 2%, to Php27,405 million in 2011 from Php28,010 million in 2010, primarily due to a decrease in domestic outbound call revenues by Php365 million, or 2%, to Php22,442 million in 2011 from Php22,807 million in 2010 mainly due to higher traffic volumes of unlimited calls at lower yield. In addition, revenues from our domestic inbound voice service decreased by Php240 million, or 5%, to Php4,963 million in 2011 from Php5,203 million in 2010 as a result of a decrease in inbound call traffic from domestic fixed line and mobile carriers. Domestic outbound call volumes increased by 14,466 million minutes, or 65%, to 36,816 million minutes in 2011 from 22,350 million minutes in 2010, while domestic inbound call volumes decreased by 87 million minutes, or 6%, to 1,350 million minutes in 2011 from 1,437 million minutes in 2010. The overall increase in domestic call traffic was due to higher call volumes resulting from unlimited voice offerings and the inclusion of DMPI's call traffic for the period from October 26, 2011 to December 31, 2011.

Revenues attributable to DMPI's domestic cellular voice service for the period from October 26, 2011 to December 31, 2011 amounted to Php1,396 million and accounted for 50% of DMPI's cellular service revenues. DMPI's domestic inbound and outbound call volumes were 55 million minutes and 2,590 million minutes, respectively, for the period from October 26, 2011 to December 31, 2011.

International voice service revenues decreased by Php1,188 million, or 7%, to Php16,480 million in 2011 from Php17,668 million in 2010, with a decline in international inbound voice service revenues by Php832 million, or 6%, to Php13,906 million in 2011 from Php14,738 million in 2010, as well as a decline in international

outbound voice service revenues by Php356 million, or 12%, to Php2,574 million in 2011 from Php2,930 million in 2010. The decline in international voice service revenues was primarily due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, partially offset by the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Conversely, international inbound and outbound calls totaled 3,085 million minutes in 2011, an increase of 59 million minutes, or 2%, from 3,026 million minutes in 2010 mainly due to an increase in our cellular subscriber base.

Revenues attributable to DMPI's international cellular voice service for the period from October 26, 2011 to December 31, 2011 amounted to Php141 million and accounted for 9% of DMPI's cellular voice service revenues. DMPI's international inbound and outbound call volumes were 1 million minutes and 35 million minutes, respectively, for the period from October 26, 2011 to December 31, 2011.

#### *Data Services*

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php1 million to Php47,235 million in 2011 from Php47,236 million in 2010, primarily due to a decrease in text messaging revenues, partially offset by the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Cellular data services accounted for 50% and 49% of our cellular service revenues in 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2011 and 2010:

	<u>2011<sup>(1)</sup></u>	<u>2010<sup>(2)</sup></u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
			(in millions)	
Text messaging				
Domestic	Php40,096	Php41,070	(Php974)	(2)
<i>Bucket-Priced/Unlimited</i>	23,164	23,836	(672)	(3)
<i>Standard</i>	16,932	17,234	(302)	(2)
International	3,612	3,534	78	2
	<u>43,708</u>	<u>44,604</u>	<u>(896)</u>	<u>(2)</u>
Value-added services				
Internet-based <sup>(3)</sup>	1,707	858	849	99
<i>Pasa Load/Give-a-load<sup>(4)</sup></i>	664	483	181	37
SMS-based <sup>(5)</sup>	652	684	(32)	(5)
MMS-based <sup>(6)</sup>	458	568	(110)	(19)
	<u>3,481</u>	<u>2,593</u>	<u>888</u>	<u>34</u>
Financial services	46	39	7	18
Total	<u>Php47,235</u>	<u>Php47,236</u>	<u>(Php1)</u>	<u>-</u>

<sup>(1)</sup> Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs. Uzzap is an IP-based messaging service that allows instant messaging, email, SMS, group messages, chatting, etc.

<sup>(4)</sup> Includes revenues from Pasa Load and Dial\*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial\*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.

<sup>(5)</sup> Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.

<sup>(6)</sup> Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

The following table shows the breakdown of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011:

	<u>2011</u>
	(in millions)
Text messaging	
Domestic	Php1,083
<i>Bucket-Priced/Unlimited</i>	678
<i>Standard</i>	405
International	37
	<u>1,120</u>
Value-added services	
Internet-based	67
SMS-based	31
MMS-based	1
<i>Give-a-load</i>	1
	<u>100</u>
Total	<u>Php1,220</u>

Text messaging-related services contributed revenues of Php43,708 million in 2011, a decrease of Php896 million, or 2%, as compared with Php44,604 million in 2010, and accounted for 92% and 94% of our total cellular data service revenues in 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS yields. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced/unlimited plans totaled Php23,164 million in 2011, a decrease of Php672 million, or 3%, as compared with Php23,836 million in 2010, primarily as a result of lower yields. Standard text messaging revenues decreased by Php302 million, or 2%, to Php16,932 million in 2011 from Php17,234 million in 2010, primarily as a result of decreased usage. On the other hand, the increase in international text messaging revenues was mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

DMPI's text messaging-related revenues contributed Php1,120 million and accounted for 92% of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011. Standard text messaging revenues amounted to Php405 million, while text messaging revenues from domestic bucket-priced/unlimited plans contributed Php678 million.

Bucket-priced/unlimited text messages usage increased by 9,954 million, or 3%, to 322,588 million in 2011 from 312,634 million in 2010 mainly due to DMPI's contribution of 8,235 million bucket-priced/unlimited text messages for the period from October 26, 2011 to December 31, 2011. On the other hand, standard text messages usage declined by 526 million, or 3%, to 17,793 million in 2011 from 18,319 million in 2010. The decline was partly offset by DMPI's contribution of 367 million standard text messages for the period from October 26, 2011 to December 31, 2011.

VAS contributed revenues of Php3,481 million in 2011, an increase of Php888 million, or 34%, as compared with Php2,593 million in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php849 million, or 99%, to Php1,707 million in 2011 from Php858 million in 2010, and *Pasa Load/Give-a-load* by Php181 million, or 37%, to Php664 million in 2011 from Php483 million in 2010.

Of VAS revenues, DMPI's VAS revenues amounted to Php100 million and accounted for 8% of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011, primarily due to revenue contributions of Php67 million and Php31 million of DMPI's internet-based and SMS-based VAS, respectively.

#### *Subscriber Base, ARPU and Churn Rates*

As at December 31, 2011, Smart, including *Talk 'N Text*, *Red Mobile* and *Sun Cellular* subscribers, totaled 63,696,629, an increase of 18,060,621, or 40%, over their combined cellular subscriber base of 45,636,008 as at December 31, 2010. Our cellular prepaid subscriber base grew by 16,578,359, or 37%, to 61,792,792 as at December 31, 2011 from 45,214,433 as at December 31, 2010, and our cellular postpaid subscriber base increased

by 1,482,262, or 352%, to 1,903,837 as at December 31, 2011 from 421,575 as at December 31, 2010. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 13,314,096 and 1,353,089, respectively, as at December 31, 2011. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at December 31, 2011 and 2010, respectively.

Our net subscriber activations for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010	Increase (Decrease)	
			Amount	%
Prepaid	3,264,263	4,321,335	(1,057,072)	(24)
<i>Smart Prepaid</i>	1,279,694	1,530,629	(250,935)	(16)
<i>Talk 'N Text</i>	1,499,794	1,916,668	(416,874)	(22)
<i>Red Mobile</i>	484,775	874,038	(389,263)	(45)
Postpaid	129,173	(13,968)	143,141	1,025
<i>Smart</i>	128,910	(13,968)	142,878	1,023
<i>Red Mobile</i> <sup>(1)</sup>	263	-	263	100
Total	3,393,436	4,307,367	(913,931)	(21)

<sup>(1)</sup> *Red Mobile postpaid was launched on March 17, 2011.*

Our quarterly net subscriber activations (reductions) over the eight quarters in 2011 and 2010 were as follows:

	2011				2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,011,692	1,178,072	(144,404)	1,218,903	1,868,812	2,144,244	(1,212,389)	1,520,668
<i>Smart Prepaid</i>	441,647	344,695	49,479	443,873	1,271,132	730,346	(588,862)	118,013
<i>Talk 'N Text</i>	433,157	376,960	(254,815)	944,492	394,984	562,375	128,786	830,523
<i>Red Mobile</i>	136,888	456,417	60,932	(169,462)	202,696	851,523	(752,313)	572,132
Postpaid	8,985	(224)	46,832	73,580	9,870	(5,569)	(21,266)	2,997
<i>Smart</i>	8,835	(658)	46,992	73,741	9,870	(5,569)	(21,266)	2,997
<i>Red Mobile</i>	150	434	(160)	(161)	-	-	-	-
Total	1,020,677	1,177,848	(97,572)	1,292,483	1,878,682	2,138,675	(1,233,655)	1,523,665

Prepaid and postpaid subscribers reflected net activations of 3,264,263 and 129,173 subscribers, respectively, in 2011 as compared with net activations of 4,321,335 and net reductions of 13,968 in 2010. *Sun Cellular's* prepaid and postpaid subscribers reflected net activations of 338,759 and 49,697 subscribers, respectively, for the period from October 26, 2011 to December 31, 2011, which are not included in the net activation presented in the table above.

For *Smart Prepaid* subscribers, the average monthly churn rate in 2011 and 2010 were 5.1% and 5.0%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.5% and 5.3% in 2011 and 2010, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 17.4% and 26.9% in 2011 and 2010, respectively.

The average monthly churn rate for *Smart's* postpaid subscribers were 2.1% and 2.4% for 2011 and 2010, respectively. *Smart's* policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2011 and 2010:

	Gross <sup>(1)</sup>		Increase (Decrease)		Net <sup>(2)</sup>		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
<i>Smart Prepaid</i>	Php198	Php220	(Php22)	(10)	Php173	Php193	(20)	(10)
<i>Talk 'N Text</i>	124	139	(15)	(11)	109	122	(13)	(11)
<i>Red Mobile</i>	38	11	27	245	33	9	24	267
Prepaid – Blended <sup>(4)</sup>	162	183	(21)	(11)	142	161	(19)	(12)
Postpaid								
<i>Smart Postpaid</i>	1,548	1,678	(130)	(8)	1,511	1,638	(127)	(8)
<i>Red Mobile</i> <sup>(5)</sup>	373	–	373	100	373	–	373	100
Postpaid – Blended <sup>(6)</sup>	1,548	1,678	(130)	(8)	1,510	1,638	(128)	(8)
Prepaid and Postpaid Blended <sup>(7)</sup>	175	198	(23)	(12)	155	175	(20)	(11)

*Sun Cellular's* average monthly cellular ARPUs for the period from October 26, 2011 to December 31, 2011 were as follows:

	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<i>Sun Cellular</i> <sup>(3)</sup>		
Prepaid	Php75	Php65
Postpaid	450	447

<sup>(1)</sup> 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.

<sup>(2)</sup> Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, by the average number of subscribers in the month. Net monthly ARPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues.

<sup>(3)</sup> *Sun Cellular* brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. *Sun Cellular* operates through DMPI, a wholly-owned subsidiary of the Digitel Group.

<sup>(4)</sup> The average monthly ARPU of *Smart Prepaid*, *Talk 'N Text* and *Red Mobile*.

<sup>(5)</sup> *Red Mobile* postpaid was launched on March 17, 2011.

<sup>(6)</sup> The average monthly ARPU of *Smart* and *Red Mobile* postpaid.

<sup>(7)</sup> The average monthly ARPU of all prepaid and postpaid cellular subscribers except for *Sun Cellular* subscribers.

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2011 was Php162, a decrease of 11%, as compared with Php183 in 2010. The decrease was primarily due to a decline in the average domestic outbound call and text messaging revenue per subscriber, as well as a drop in the average international inbound voice revenue per subscriber in 2011 as compared with 2010. On a net basis, prepaid blended average monthly ARPU in 2011 was Php142, a decrease of 12%, as compared with Php161 in 2010.

Postpaid blended gross and net average monthly ARPU decreased to Php1,548 and Php1,510, respectively, in 2011 as compared with Php1,678 and Php1,638, respectively, in 2010. Prepaid and postpaid gross average monthly blended ARPU was Php175 in 2011, a decrease of 12%, as compared with Php198 in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 11% to Php155 in 2011 from Php175 in 2010.

*Sun Cellular's* prepaid gross and net average monthly ARPU for the period from October 26, 2011 to December 31, 2011 were Php75 and Php65, respectively, while postpaid gross and net average monthly ARPU for the period from October 26, 2011 to December 31, 2011 were Php450 and Php447, respectively.

Our average monthly prepaid and postpaid ARPUs per quarter in 2011 and 2010 were as follows:

	Prepaid						Postpaid			
	Smart Prepaid		Talk 'N Text		Red Mobile		Smart		Red Mobile <sup>(1)</sup>	
	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>
<b>2011</b>										
First Quarter	Php205	Php180	Php129	Php113	Php32	Php28	Php1,610	Php1,557	Php133	Php133
Second Quarter	203	179	126	111	43	38	1,638	1,576	413	413
Third Quarter	188	166	117	103	39	33	1,494	1,430	431	431
Fourth Quarter	194	166	124	109	39	34	1,452	1,480	355	355
<b>2010</b>										
First Quarter	232	204	140	122	11	9	1,686	1,666	–	–
Second Quarter	224	197	141	123	4	4	1,665	1,627	–	–
Third Quarter	207	181	135	118	6	5	1,661	1,614	–	–
Fourth Quarter	215	189	140	123	22	19	1,702	1,646	–	–

<sup>(1)</sup> Red Mobile postpaid was launched on March 17, 2011.

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

<sup>(3)</sup> Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Note 2 – Summary of Significant Accounting Policies to the accompanying consolidated financial statements in Item 7.

### Wireless Broadband, Satellite and Other Services

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

#### Wireless Broadband

Revenues from our wireless broadband services increased by Php517 million, or 8%, to Php6,804 million in 2011 from Php6,287 million in 2010, primarily due to the 53% growth in broadband subscriber base and as a result of the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011 of Php290 million, partially offset by a decline in ARPU.

SBI and Sun Broadband Wireless, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,068,409 subscribers as at December 31, 2011, an increase of 712,432 subscribers, or 53%, as compared with 1,355,977 subscribers as at December 31, 2010, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 200,972 and 251,084, respectively, as at December 31, 2011. Our postpaid wireless broadband subscriber base increased by 274,660 subscribers, or 64%, to 705,417 subscribers as at December 31, 2011 from 430,757 subscribers as at December 31, 2010, while our prepaid wireless broadband subscriber base increased by 437,772 subscribers, or 47%, to 1,362,992 subscribers as at December 31, 2011 from 925,220 subscribers as at December 31, 2010.

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

SBI offers mobile internet access through Smart Bro Plug-It, a wireless modem and Smart Bro Pocket Wifi, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity in places where there is Smart network coverage. Smart Bro Plug-It and Smart Bro Pocket Wifi are available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with Unli Surf200, Unli Surf100 and Unli Surf50 for Smart Bro Plug-It and Pocket Wifi Prepaid subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

DMPI's Sun Broadband Wireless service offers internet users an affordable high-speed broadband wireless service utilizing advanced 3.5G HSPA technology on an all-IP network. Sun Broadband Wireless has plans and offerings ranging from Php350 to Php1,495 with speeds of up to 2 Mbps.



*Smart Bro WiMAX* service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, improved interference avoidance and higher data rates over a longer distance. *WiMAX* unlimited broadband usage is available under Plan 799 and Plan 995 with burst speeds of 512 kbps up to 1 Mbps, respectively.

#### *Satellite and Other Services*

Revenues from our satellite and other services decreased by Php597 million, or 27%, to Php1,620 million in 2011 from Php2,217 million in 2010, primarily due to the sale of Mabuhay Satellite's transponders on July 1, 2010 and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010 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 Php112 million, or 8%, to Php1,469 million in 2011 as compared with Php1,357 million in 2010, primarily due to the effect of the inclusion of DMPI's non-service revenues of Php86 million for the period from October 26, 2011 to December 31, 2011, as well as the increase in cellular handset/SIM-pack activations, partially offset by a lower quantity of broadband data modems sold.

#### *Expenses*

Expenses associated with our wireless business in 2011, which includes DMPI's expenses of Php3,083 million, amounted to Php71,049 million, an increase of Php11,242 million, or 19%, from Php59,807 million in 2010. A significant portion of this increase was attributable to higher expenses related to asset impairment, as well as higher selling and promotions, depreciation and amortization, cost of sales, repairs and maintenance, and taxes and licenses, partially offset by lower expenses related to compensation and employee benefits, rent and interconnection costs. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 57% in 2011 and 2010, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item in relation to the total:

	2011 <sup>(1)</sup>		2010 <sup>(2)</sup>		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Depreciation and amortization	Php14,295	20	Php13,243	22	Php1,052	8
Interconnection costs	9,604	14	10,194	17	(590)	(6)
Asset impairment	9,197	13	824	1	8,373	1,016
Rent	8,251	12	9,038	15	(787)	(9)
Selling and promotions	6,144	9	3,809	6	2,335	61
Repairs and maintenance	5,643	8	5,058	9	585	12
Compensation and employee benefits <sup>(3)</sup>	5,248	7	6,385	11	(1,137)	(18)
Cost of sales	4,267	6	3,587	6	680	19
Professional and other contracted services	3,176	5	3,104	5	72	2
Taxes and licenses	2,233	3	1,681	3	552	33
Communication, training and travel	1,022	1	946	2	76	8
Insurance and security services	847	1	831	1	16	2
Amortization of intangible assets	108	–	134	–	(26)	(19)
Other expenses	1,014	1	973	2	41	4
Total	Php71,049	100	Php59,807	100	Php11,242	19

<sup>(1)</sup> Includes DMPI's expenses for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in Item 1. "Description of Business – Overview" and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> Includes salaries and employee benefits, LTIP, pension and manpower rightsizing program, or MRP, costs.

The following table summarizes the breakdown of DMPI's wireless-related expenses for the period from October 26, 2011 to December 31, 2011 and the percentage of each expense item in relation to the total:

	<u>2011</u> <u>(in millions)</u>	<u>%</u>
Depreciation and amortization	Php907	29
Interconnection costs	425	14
Cost of sales	412	13
Repairs and maintenance	398	13
Selling and promotions	278	9
Compensation and employee benefits	219	7
Rent	199	7
Professional and other contracted services	74	2
Taxes and licenses	64	2
Communication, training and travel	48	2
Asset impairment	37	1
Insurance and security services	8	-
Other expenses	14	1
Total	<u>Php3,083</u>	<u>100</u>

Depreciation and amortization charges increased by Php1,052 million, or 8%, to Php14,295 million on account of higher depreciation charges on cellular network facilities, business and operations support systems and the inclusion of DMPI's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011.

Interconnection costs decreased by Php590 million, or 6%, to Php9,604 million primarily due to an increase in inter-operator rebates and a decrease in interconnection charges for domestic and international calls and roaming SMS, partially offset by the inclusion of DMPI's interconnection costs for the period from October 26, 2011 to December 31, 2011.

Asset impairment increased by Php8,373 million to Php9,197 million primarily due to impairment charges on certain network equipment and facilities covered by the network modernization program undertaken by Smart and higher provision for inventory obsolescence, partly offset by lower provision for uncollectible receivables.

Rent expenses decreased by Php787 million, or 9%, to Php8,251 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in satellite and building rental, partially offset by the increase in cell site, leased line and pole charges and the inclusion of DMPI's rent expenses for the period from October 26, 2011 to December 31, 2011. In 2011, we had 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 4,918 fixed wireless broadband-enabled base stations, which includes DMPI's 4,414 cell sites, 4,376 cellular/mobile broadband base stations and 2,132 fixed wireless broadband-enabled base stations, as compared with 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations in 2010.

Selling and promotion expenses increased by Php2,335 million, or 61%, to Php6,144 million primarily due to the inclusion of DMPI's selling and promotions expense for the period from October 26, 2011 to December 31, 2011 and higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Repairs and maintenance expenses increased by Php585 million, or 12%, to Php5,643 million mainly due to the inclusion of DMPI's repairs and maintenance expense for the period from October 26, 2011 to December 31, 2011, higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and other work equipment, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Compensation and employee benefits expenses decreased by Php1,137 million, or 18%, to Php5,248 million primarily due to lower LTIP, salaries and employee benefits, and lower MRP costs, partially offset by the inclusion of DMPI's compensation and employee benefit expenses for the period from October 26, 2011 to December 31, 2011 and higher provision for pension benefits. Employee headcount increased to 8,043 as at December 31, 2011 as compared with 5,165 as at December 31, 2010, primarily due to the inclusion of DMPI's

headcount of 2,782 as at December 31, 2011.

Cost of sales increased by Php680 million, or 19%, to Php4,267 million primarily due to the inclusion of DMPI's cost of sales for the period from October 26, 2011 to December 31, 2011 and higher cellular activation and broadband retention cost, partly offset by lower quantity and average cost of broadband modems sold.

Professional and other contracted service fees increased by Php72 million, or 2%, to Php3,176 million primarily due to the increase in consultancy, contracted service, outsourced service, and market research fees, and the inclusion of DMPI's professional and other contracted service fees for the period from October 26, 2011 to December 31, 2011, partly offset by lower management, customer relationship management service, technical and legal services, and other professional service fees.

Taxes and licenses increased by Php552 million, or 33%, to Php2,233 million primarily due to higher business-related taxes and the inclusion of DMPI's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Communication, training and travel expenses increased by Php76 million, or 8%, to Php1,022 million primarily due to higher courier charges, travel expenses, fuel consumption for vehicles, and the inclusion of DMPI's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 partially offset by lower communication, training, and freight and hauling expenses.

Insurance and security services increased by Php16 million, or 2%, to Php847 million primarily due to higher site security expense, and the inclusion of DMPI's insurance and security expenses for the period from October 26, 2011 to December 31, 2011, partially offset by lower insurance premiums.

Amortization of intangible assets decreased by Php26 million, or 19%, to Php108 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka in 2010.

Other expenses increased by Php41 million, or 4%, to Php1,014 million primarily due to higher various business and operational-related expenses and the inclusion of DMPI's other operational expenses for the period from October 26, 2011 to December 31, 2011.

### **Other Expenses**

The following table summarizes the breakdown of our total wireless-related other expenses for the years ended December 31, 2011 and 2010:

	2011	2010 <sup>(1)</sup>	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Interest income	Php677	Php551	Php126	23
Gains (losses) on derivative financial instruments – net	(10)	3	(13)	(433)
Equity share in net losses of associates	(115)	(7)	(108)	1,543
Foreign exchange gains (losses) – net	(720)	888	(1,608)	(181)
Financing costs – net	(2,744)	(2,681)	(63)	2
Others	1,218	1,110	108	10
Total	<u>(Php1,694)</u>	<u>(Php136)</u>	<u>(Php1,558)</u>	<u>1,146</u>

<sup>(1)</sup> The 2010 results have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in Item 1. "Description of Business – Overview".

Our wireless business' other expenses amounted to Php1,694 million in 2011, which includes other expenses from DMPI amounting to Php764 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,558 million from Php136 million in 2010, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php720 million in 2011 as against net foreign exchange gains of Php888 million in 2010 on account of revaluation of foreign currency-denominated assets and liabilities due to the inclusion of losses on revaluation of dollar-denominated net liabilities of DMPI for the period from October 26, 2011 to December 31, 2011, and lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) increase in equity share in net losses of associates by Php108 million; (iii) higher net financing costs by Php63 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level

of loan balances, and lower average interest and foreign exchange rates; (iv) an increase in interest income by Php126 million mainly due to a higher average level of peso and dollar short-term investments and a higher average interest rate in 2011; and (v) an increase in other income by Php108 million mainly due to reversal of prior year's accrual of LTIP, partially offset by lower rental and consultancy income, and lower gains on disposal of fixed assets and insurance claims.

### ***Provision for Income Tax***

Provision for income tax decreased by Php2,984 million, or 26%, to Php8,429 million in 2011 from Php11,413 million in 2010, primarily due to lower taxable income and increased savings from the use of the optional standard deduction method in computing taxable income. The effective tax rate for our wireless business was 27% and 25% in 2011 and 2010, respectively.

### ***Net Income***

As a result of the foregoing, our wireless business recorded a net income of Php22,366 million in 2011, including a net of loss from DMPI of Php405 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php11,659 million, or 34%, from Php34,025 million recorded in 2010.

### ***EBITDA***

As a result of the foregoing, our wireless business' EBITDA decreased by Php3,571 million, or 6%, to Php55,393 million in 2011, which includes EBITDA from DMPI of Php1,137 million for the period from October 26, 2011 to December 31, 2011, from Php58,964 million in 2010.

### ***Core Income***

Our wireless business' core income decreased by Php3,449 million, or 10%, to Php29,903 million in 2011, which includes core income from DMPI amounting to Php154 million for the period from October 26, 2011 to December 31, 2011, from Php33,352 million in 2010 on account of an increase in wireless-related expenses, lower wireless revenues and higher other expenses, partially offset by lower provision for income tax.

### ***Fixed Line***

#### ***Revenues***

Revenues generated from our fixed line business amounted to Php60,006 million in 2011, including revenues from Digitel of Php706 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php152 million from Php60,158 million in 2010.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2011 and 2010 by service segment:

	2011 <sup>(1)</sup>	%	2010 <sup>(2)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Local exchange	Php15,108	25	Php15,342	25	(Php234)	(2)
International long distance	11,243	19	11,112	18	131	1
National long distance	5,525	9	6,487	11	(962)	(15)
Data and other network	24,093	40	22,785	38	1,308	6
Miscellaneous	2,816	5	3,399	6	(583)	(17)
	58,785	98	59,125	98	(340)	(1)
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,221	2	1,033	2	188	18
Total Fixed Line Revenues	Php60,006	100	Php60,158	100	(Php152)	-

<sup>(1)</sup> Includes Digitel's revenues for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the inclusion of the ePLDT Group to our fixed line business, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

The following table summarizes the revenue contribution of Digitel to our fixed line business for the period from October 26, 2011 to December 31, 2011 by service segment:

	<u>2011</u>	<u>%</u>
	(in millions)	
Fixed Line Services:		
Service Revenues:		
Local exchange	Php178	25
International long distance	239	34
National long distance	68	10
Data and other network	221	31
Total Fixed Line Revenues	<u>706</u>	<u>100</u>

### 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 decreased by Php340 million, or 1%, to Php58,785 million in 2011, which includes service revenues from Digitel amounting to Php706 million for the period from October 26, 2011 to December 31, 2011, from Php59,125 million in 2010 due to decreases in revenues from our national long distance, local exchange, and miscellaneous services, partially offset by increases in the revenue contribution of our data and other network, 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 years ended December 31, 2011 and 2010:

	<u>2011<sup>(1)</sup></u>	<u>2010<sup>(2)</sup></u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Total local exchange service revenues (in millions)	Php15,108	Php15,342	(Php234)	(2)
Number of fixed line subscribers	2,166,295	1,822,105	344,190	19
Postpaid	2,029,359	1,703,998	325,361	19
Prepaid	136,936	118,107	18,829	16
Number of fixed line employees	9,072	7,395	1,677	23
Number of fixed line subscribers per employee	239	246	(7)	(3)

<sup>(1)</sup> Includes Digitel's revenues, subscriber base and employee headcount as at and for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

The following table summarizes the key measures of Digitel's local exchange service business as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011:

	<u>2011</u>
Total local exchange service revenues (in millions)	Php178
Number of fixed line subscribers	296,395
Postpaid	248,648
Prepaid	47,747
Number of fixed line employees	1,586
Number of fixed line subscribers per employee	187

Revenues from our local exchange service decreased by Php234 million, or 2%, to Php15,108 million in 2011 from Php15,342 million in 2010, primarily due to a decrease in ARPU on account of lower fixed rates due to the increase in demand for bundled voice and data services and a decrease in installation charges, partially offset by the increase in postpaid wired and PLP lines and the effect of the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. PLP wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. Similar to our PLP wireless service, Digitel's SunTel wireless landline offers unlimited landline to landline calls with the convenience of limited mobility. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of 2011 and 2010.

### International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php11,243	Php11,112	Php131	1
Inbound	10,217	9,851	366	4
Outbound	1,026	1,261	(235)	(19)
International call volumes (in million minutes, except call ratio)	1,939	1,714	225	13
Inbound	1,765	1,515	250	17
Outbound	174	199	(25)	(13)
Inbound-outbound call ratio	10.1:1	7.6:1	–	–

<sup>(1)</sup> Includes Digitel's revenues of Php239 million and call volumes of 58 million minutes for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Our total international long distance service revenues increased by Php131 million, or 1%, to Php11,243 million in 2011, which includes revenues from Digitel amounting to Php239 million for the period from October 26, 2011 to December 31, 2011, from Php11,112 million in 2010, primarily due to the increase in inbound call traffic volumes, partially offset by the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010 and the decrease in outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% in each of 2011 and 2010.

Our revenues from inbound international long distance service increased by Php366 million, or 4%, to Php10,217 million in 2011 from Php9,851 million in 2010 due to an increase in inbound call volumes and increase in the average settlement rate, as well as the inclusion of Digitel's inbound international long distance service revenues of Php234 million for the period from October 26, 2011 to December 31, 2011, partially offset by the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar.

Our revenues from outbound international long distance service decreased by Php235 million, or 19%, to Php1,026 million in 2011 from Php1,261 million in 2010, primarily due to the decline in outbound call volumes, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, resulting in a decrease in the average billing rates to Php43.34 in 2011 from Php45.31 in 2010 and decrease in average collection rate in dollar terms.

### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php5,525	Php6,487	(Php962)	(15)
National long distance call volumes (in million minutes)	1,040	1,290	(250)	(19)

<sup>(1)</sup> Includes Digitel's revenues of Php68 million and call volumes of 18 million minutes for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Our national long distance service revenues decreased by Php962 million, or 15%, to Php5,525 million in 2011 from Php6,487 million in 2010, primarily due to a decrease in call volumes, partially offset by the inclusion of Digitel's national long distance service revenues for the period from October 26, 2011 to December 31, 2011 and an increase in the average revenue per minute of our national long distance services due to the cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% and 11% in 2011 and 2010, respectively.

*Data and Other Network Services*

The following table shows information of our data and other network service revenues for the years ended December 31, 2011 and 2010:

	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php24,093	Php22,785	Php1,308	6
Domestic	16,647	15,646	1,001	6
Broadband	9,940	8,511	1,429	17
DSL	9,664	8,263	1,401	17
WeRoam	276	248	28	11
Leased Lines and Others	6,707	7,135	(428)	(6)
International				
Leased Lines and Others	6,310	6,241	69	1
Vitro™ Data Center	1,136	898	238	27
Subscriber base				
Broadband	859,960	665,027	194,933	29
DSL	842,273	643,048	199,225	31
WeRoam	17,687	21,979	(4,292)	(20)
SWUP	20,153	15,641	4,512	29

<sup>(1)</sup> Includes Digitel's revenues and subscriber base as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators"

The following table shows Digitel's contribution to our data and other network service revenues and subscriber base as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011:

	2011
Data and other network service revenues (in millions)	Php221
Domestic	215
Broadband – Sun DSL	132
Leased Lines and Others	83
International	
Leased Lines and Others	6
DSL Subscriber base	99,367

Our data and other network services posted revenues of Php24,093 million in 2011, which includes revenues from Digitel of Php221 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,308 million, or 6%, from Php22,785 million in 2010, primarily due to higher revenues from PLDT DSL, an increase in international data revenues primarily due to higher revenues from Fibernet and ISDN, and the inclusion of Digitel's data and other network service revenues for the period from October 26, 2011 to December 31, 2011, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues was 41% and 38% in 2011 and 2010, respectively.

## Domestic

Domestic data services contributed Php16,647 million in 2011, an increase of Php1,001 million, or 6%, as compared with Php15,646 million in 2010 mainly due to higher DSL revenues, internet protocol-virtual private network, or IP-VPN, and *Shops.Work Unplugged*, or *SWUP*, subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased and the inclusion of Digitel's domestic data revenues of Php215 million for the period from October 26, 2011 to December 31, 2011, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services accounted for 69% in each of 2011 and 2010.

### *Broadband*

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies). Broadband data revenue was Php9,940 million in 2011, including Digitel's broadband data revenues of Php132 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,429 million, or 17%, from Php8,511 million in 2010, primarily due to the higher revenue contribution of DSL which contributed revenues of Php9,664 million in 2011 from Php8,263 million in 2010 as a result of the increase in the number of subscribers by 31% to 842,273 subscribers as at December 31, 2011 from 643,048 subscribers in 2010, including Digitel's DSL subscriber base of 99,367 as at December 31, 2011. DSL revenues accounted for 40% and 37% of total data and other network service revenues in 2011 and 2010, respectively. *WeRoam* revenues amounted to Php276 million in 2011, an increase of Php28 million, or 11%, from Php248 million in 2010 in contrast to a decrease in subscriber base by 20% to 17,687 subscribers in 2011 from 21,979 subscribers in 2010.

### *Leased Lines and Others*

Leased lines and other data services include: (i) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (ii) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (iii) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (iv) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (v) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2011, *SWUP* has a total subscriber base of 20,153 up by 29% from 15,641 subscribers in 2010. Leased lines and other data revenues amounted to Php6,707 million in 2011, a decrease of Php428 million, or 6%, from Php7,135 million in 2010, primarily due to a decrease in Diginet revenues, partially offset by the inclusion of Digitel's leased line data revenues of Php83 million for the period from October 26, 2011 to December 31, 2011, and higher revenues from IP-VPN and *SWUP*. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 28% and 31% in 2011 and 2010, 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, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php69 million, or 1%, to Php6,310 million in 2011 from Php6,241 million in 2010, primarily resulting from the growth in international managed data services, higher Fibernet and ISDN revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php6 million for the period from October 26, 2011 to December 31, 2011, partially offset by the termination of transponder sub-lease agreement with customers, a decrease in revenues from i-Gate and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S.



dollar. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 26% and 27% in 2011 and 2010, respectively.

#### *Vitro™ Data Center*

*Vitro™* data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php238 million, or 27%, to Php1,136 million in 2011 from Php898 million in 2010 mainly due to higher co-location and managed services.

#### *Miscellaneous Services*

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues decreased by Php583 million, or 17%, to Php2,816 million in 2011 from Php3,399 million in 2010 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of investments in Digital Paradise and Level Up!, as well as lower rental and facilities management fees, and directory advertising, partially offset by the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), and the revenue contribution of PGNL, the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, and distributes these media content via syndication and via its international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 5% and 6% in 2011 and 2010, respectively.

#### *Non-service Revenues*

Non-service revenues increased by Php188 million, or 18%, to Php1,221 million in 2011 from Php1,033 million in 2010, primarily due to the sale of several managed PABX and *OnCall* solution in 2011, no similar transactions were recognized in 2010, as well as higher computer-bundled sales, partially offset by lower sale of *PLP* units and SIM cards.

#### *Expenses*

Expenses related to our fixed line business totaled Php50,620 million in 2011, which includes expenses from Digitel amounting to Php726 million for the period from October 26, 2011 to December 31, 2011, an increase of Php377 million, or 1%, as compared with Php50,243 million in 2010. The increase was primarily due to higher expenses related to professional and other contracted services, depreciation and amortization, interconnection costs, taxes and licenses, asset impairment, repairs and maintenance, and selling and promotions, partly offset by lower expenses related to compensation and employee benefits, and rent. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% in each of 2011 and 2010.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item to the total:

	2011 <sup>(1)</sup>		2010 <sup>(2)</sup>		Increase (Decrease)	
	(in millions)	%	(in millions)	%	Amount	%
Depreciation and amortization	Php13,244	26	Php12,638	25	Php606	5
Compensation and employee benefits <sup>(3)</sup>	9,855	20	12,770	25	(2,915)	(23)
Interconnection costs	8,471	17	7,947	16	524	7
Repairs and maintenance	5,116	10	4,886	10	230	5
Professional and other contracted services	4,043	8	3,297	7	746	23
Rent	2,689	5	2,762	5	(73)	(3)
Selling and promotions	1,665	3	1,439	3	226	16
Taxes and licenses	1,319	3	825	2	494	60
Cost of sales	1,178	2	1,184	2	(6)	(1)
Asset impairment	1,003	2	596	1	407	68
Communication, training and travel	780	2	754	2	26	3
Insurance and security services	577	1	454	1	123	27
Amortization of intangible assets	32	–	29	–	3	10
Other expenses	648	1	662	1	(14)	(2)
<b>Total</b>	<b>Php50,620</b>	<b>100</b>	<b>Php50,243</b>	<b>100</b>	<b>Php377</b>	<b>1</b>

<sup>(1)</sup> Includes Digitel's expenses for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

The following table summarizes the breakdown of Digitel's fixed line-related expenses for the period from October 26, 2011 to December 31, 2011 and the percentage of each expense item to the total:

	2011 (in millions)	%
Repairs and maintenance	Php184	25
Rent	89	12
Depreciation and amortization	88	12
Compensation and employee benefits	84	12
Taxes and licenses	68	9
Interconnection costs	65	9
Professional and other contracted services	35	5
Communication, training and travel	32	4
Selling and promotions	25	4
Cost of Sales	20	3
Insurance and security services	14	2
Asset impairment	10	1
Other expenses	12	2
<b>Total</b>	<b>Php726</b>	<b>100</b>

Depreciation and amortization charges increased by Php606 million, or 5%, to Php13,244 million as compared with 2010 due to a higher depreciable asset base and the effect of the inclusion of Digitel's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011.

Compensation and employee benefits expenses decreased by Php2,915 million, or 23%, to Php9,855 million primarily due to lower MRP and reversal of LTIP costs, lower salaries and employee benefits, and pension costs, partially offset by the effect of the inclusion of Digitel's compensation and employee benefits expenses for the period from October 26, 2011 to December 31, 2011. Conversely, employee headcount increased to 11,409 in 2011 as compared with 9,572 in 2010 mainly due to Digitel's headcount of 1,586.

Interconnection costs increased by Php524 million, or 7%, to Php8,471 million primarily due to higher international received paid calls that terminated to other domestic carriers, as well as higher settlement to various foreign administrations.

Repairs and maintenance expenses increased by Php230 million, or 5%, to Php5,116 million primarily due to higher maintenance costs of central office/telecom equipment, site electricity charges and fuel consumption cost, and the effect of the inclusion of Digitel's repairs and maintenance expenses for the period from October 26,

2011 to December 31, 2011, partially offset by lower office electricity charges, maintenance costs on IT hardware and software, and buildings.

Professional and other contracted service expenses increased by Php746 million, or 23%, to Php4,043 million primarily due to higher consultancy and contracted services in relation with the acquisition of Digitel, and customer relationship management service fees, and the effect of the inclusion of Digitel's professional and other contracted fees for the period from October 26, 2011 to December 31, 2011, partially offset by lower legal fees and outsource cost.

Rent expenses decreased by Php73 million, or 3%, to Php2,689 million due to a decrease in satellite link, site and pole rental charges, partially offset by an increase in leased circuits and office building rental charges and the effect of the inclusion of Digitel's rent expenses for the period from October 26, 2011 to December 31, 2011.

Selling and promotion expenses increased by Php226 million, or 16%, to Php1,665 million primarily due to higher public relations expenses, as well as higher spending on advertising and promotions, and public relations and commission expenses and the effect of the inclusion of Digitel's selling and promotions expenses for the period from October 26, 2011 to December 31, 2011.

Taxes and licenses increased by Php494 million, or 60%, to Php1,319 million as a result of higher business-related taxes and the effect of the inclusion of Digitel's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Cost of sales decreased by Php6 million, or 1%, to Php1,178 million primarily due to lower sales of *PLP* units and SIM cards, partially offset by the sale of several managed PABX and *OnCall* solutions in 2011; no similar transactions were recognized in 2010, as well as higher computer-bundled sales in relation to our DSL promotions.

Asset impairment increased by Php407 million, or 68%, to Php1,003 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables for the period from October 26, 2011 to December 31, 2011, partially offset by lower impairment charges on payphone assets and investment in 2010.

Communication, training and travel expenses increased by Php26 million, or 3%, to Php780 million mainly due to the effect of the inclusion of Digitel's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 and increases in foreign travel expenses, mailing and courier charges, and fuel consumption, partially offset by lower training and local travel expenses, and communication charges.

Insurance and security services increased by Php123 million, or 27%, to Php577 million primarily due to higher insurance and bond premiums, security services and the effect of the inclusion of Digitel's insurance and security expenses for the period from October 26, 2011 to December 31, 2011.

Amortization of intangible assets increased by Php3 million, or 10%, to Php32 million primarily due to amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI and Infocom in 2011.

Other expenses decreased by Php14 million, or 2%, to Php648 million primarily due to lower various business and operational-related expenses.

## ***Other Expenses***

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2011 and 2010:

	2011	2010	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Interest income	Php590	Php499	Php91	18
Equity share in net earnings of associates	307	186	121	65
Gains (losses) on derivative financial instruments – net	211	(1,744)	1,955	112
Foreign exchange gains (losses) – net	(15)	985	(1,000)	(102)
Financing costs – net	(3,710)	(3,864)	154	(4)
Others	2,024	1,244	780	63
Total	<u>(Php593)</u>	<u>(Php2,694)</u>	<u>Php2,101</u>	<u>(78)</u>

Our fixed line business' other expenses was Php593 million in 2011, which includes other expenses from Digitel amounting to Php2,240 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php2,101 million, or 78%, from Php2,694 million in 2010. The decrease was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php211 million in 2011 as against net losses on derivative financial instruments of Php1,744 million in 2010 due to the effect of wider dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in 2011; (ii) an increase in other income by Php780 million mainly due to the reversal of prior year's LTIP accrual, pension benefit income recognized by PLDT in 2011 and a gain on sale of investments in Level Up! and Digital Paradise; (iii) a decrease in net financing costs by Php154 million due to a decrease in interest expense on loans and related items on account of lower average interest rates, partially offset by higher average level of loan balances; (iv) increase in equity share in net earnings of associates and joint ventures of Php121 million mainly due to the share in net earnings of Philweb Corporation, or Philweb, and Digitel's reversal of impairment on investment in Digitel Crossing, Inc.; (v) an increase in interest income by Php91 million due to a higher average level of peso and dollar short-term investments and higher average peso interest rates, and impact of the depreciation of the Philippine peso on dollar placements; and (vi) net foreign exchange losses of Php15 million in 2011 as against net foreign exchange gains of Php985 million in 2010 on account of lower gains on net foreign exchange revaluation of foreign currency-denominated assets due to the effect of the depreciation of the Philippine peso to the U.S. dollar.

## ***Provision for Income Tax***

Provision for income tax, net of benefit from income tax from Digitel amounting to Php18 million for the period from October 26, 2011 to December 31, 2011, amounted to Php2,491 million in 2011, an increase of Php415 million, or 20%, as compared with Php2,076 million in 2010, primarily due to higher taxable income. The effective tax rate of our fixed line business accounted for 28% and 29% in 2011 and 2010, respectively.

## ***Net Income***

As a result of the foregoing, our fixed line business contributed a net income of Php6,302 million in 2011, net of loss from Digitel amounting to Php2,242 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,157 million, or 22%, as compared with Php5,145 million in 2010.

## ***EBITDA***

As a result of the foregoing, our fixed line business' EBITDA decreased by Php372 million, or 2%, to Php22,675 million in 2011, which includes EBITDA from Digitel of negative Php60 million for the period from October 26, 2011 to December 31, 2011, from Php23,047 million in 2010.

## ***Core Income***

Our fixed line business' core income decreased by Php80 million, or 1%, to Php5,765 million in 2011, which includes core income from Digitel amounting to negative Php397 million for the period from October 26, 2011 to December 31, 2011, from Php5,845 million in 2010, primarily as a result of a decrease in fixed line

revenues, an increase in fixed line expenses, and higher provision for income tax and financing costs, partially offset by a decrease in other expenses.

## Business Process Outsourcing

### Revenues

Our BPO business provides knowledge processing solutions and customer relationship management.

Our BPO business generated revenues of Php8,588 million in 2011, an increase of Php476 million, or 6%, as compared with Php8,112 million in 2010. This increase was primarily due to higher revenue contributions from our knowledge processing solutions and customer relationship management businesses.

The following table summarizes our total revenues from our BPO business for the years ended December 31, 2011 and 2010 by service segment:

	2011	%	2010 <sup>(1)</sup> (in millions)	%	Increase	
					Amount	%
Service Revenues:						
Knowledge processing solutions	Php5,721	67	Php5,289	65	Php432	8
Customer relationship management	2,867	33	2,823	35	44	2
Total BPO Revenues	Php8,588	100	Php8,112	100	Php476	6

<sup>(1)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview".

### Service Revenues

Service revenues generated by our BPO business amounted to Php8,588 million in 2011, an increase of Php476 million, or 6%, as compared with Php8,112 million in 2010, primarily as a result of the continued growth in our knowledge processing solutions, and customer relationship management businesses.

#### Knowledge Processing Solutions

Our knowledge processing solutions business operates primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php5,721 million in 2011, an increase of Php432 million, or 8%, from Php5,289 million in 2010. Dollar-denominated revenues increased by 13% mainly due to higher content services and medical billing, partially offset by the appreciation of the Philippine peso to the U.S. dollar in 2011. Knowledge processing solutions business revenues accounted for 67% and 65% of total revenues of our BPO business in 2011 and 2010, respectively.

#### Customer Relationship Management

Our customer relationship management business operates primarily through SPi CRM. In 2011, SPi CRM changed its functional currency from Philippine Peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php44 million, or 2%, to Php2,867 million in 2011 from Php2,823 million in 2010, primarily due to higher domestic sales by 10%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 5,959 seats with an average of 3,360 customer service representatives, or CSRs, in 2011, as compared with 7,045 seats with an average of 4,592 CSRs in 2010. SPi CRM has six customer relationship management sites as at December 31, 2011 and 2010. Customer relationship management business revenues accounted for 33% and 35% of total revenues of our BPO business in 2011 and 2010, respectively.

### Expenses

Expenses associated with our BPO business totaled Php7,598 million in 2011, a decrease of Php883 million, or 10%, as compared with Php8,481 million in 2010, primarily due to lower expenses related to asset impairment, amortization of intangible assets, repairs and maintenance, rent, and taxes and licenses, partially offset by higher expenses related to compensation and employee benefits, professional and other contracted services, and depreciation and amortization. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 88% and 105% in 2011 and 2010, respectively.

The following table shows the breakdown of our total BPO-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits <sup>(2)</sup>	Php5,062	67	Php4,922	58	Php140	3
Professional and other contracted services	538	7	427	5	111	26
Rent	423	6	445	5	(22)	(5)
Depreciation and amortization	418	5	396	5	22	6
Repairs and maintenance	379	5	404	5	(25)	(6)
Communication, training and travel	344	4	335	4	9	3
Amortization of intangible assets	147	2	225	2	(78)	(35)
Insurance and security services	58	1	59	1	(1)	(2)
Taxes and licenses	43	1	63	1	(20)	(32)
Selling and promotions	40	–	40	–	–	–
Asset impairment	9	–	1,018	12	(1,009)	(99)
Other expenses	137	2	147	2	(10)	(7)
Total	Php7,598	100	Php8,481	100	(Php883)	(10)

<sup>(1)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview".

<sup>(2)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Compensation and employee benefits increased by Php140 million, or 3%, to Php5,062 million mainly due to higher salaries and benefits, partially offset by a decline in MRP costs and provision for pension costs. BPO employee headcount increased by 631, or 4%, to 14,664 in 2011 as compared with 14,033 in 2010.

Professional and other contracted services increased by Php111 million, or 26%, to Php538 million primarily due to higher contracted service and consultancy fees, as well as professional fees for services rendered on the sale of the medical transcription business and the purchase of Laserwords.

Rent expenses decreased by Php22 million, or 5%, to Php423 million primarily due to lower office building and domestic leased circuit rental charges.

Depreciation and amortization increased by Php22 million, or 6%, to Php418 million primarily due to CRM's purchase in 2011 of PBX Avaya 6.2 upgrade, IP phones and various computers and peripherals.

Repairs and maintenance expenses decreased by Php25 million, or 6%, to Php379 million primarily due to decrease in repairs and maintenance costs of site facilities and buildings particularly from our customer relationship management business, as well as a decrease in site electricity charges, partially offset by higher IT software and hardware repairs and maintenance costs.

Communication, training and travel expenses increased by Php9 million, or 3%, to Php344 million primarily due to higher travel expenses, communication, and mailing and courier charges, partially offset by lower local training expenses and fuel consumption costs.

Amortization of intangible assets decreased by Php78 million, or 35%, to Php147 million due to the full impairment of intangible assets related to CyMed in December 2010.

Insurance and security service expenses decreased by Php1 million, or 2%, to Php58 million primarily due to lower expenses on security services, partially offset by higher insurance and bond premiums.

Taxes and licenses decreased by Php20 million, or 32% to Php43 million due to lower business-related taxes in 2011.

Asset impairment decreased by Php1,009 million, or 99%, to Php9 million primarily due to customer relationship management's and knowledge processing solutions' asset impairment of unused business tax benefits in 2010.

Other expenses decreased by Php10 million, or 7%, to Php137 million mainly due to lower various business operational-related costs.

## Other Income

The following table summarizes the breakdown of our total BPO-related other income for the years ended December 31, 2011 and 2010:

	2011	2010 <sup>(1)</sup>	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Interest income	Php15	Php20	(Php5)	(25)
Loss on derivative financial instruments – net	(4)	–	(4)	(100)
Foreign exchange losses – net	(9)	(43)	34	(79)
Financing costs	(37)	(168)	131	(78)
Others	147	234	(87)	(37)
Total	Php112	Php43	Php69	160

<sup>(1)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. “Description of Business – Overview”.

Our BPO business’ other income amounted to Php112 million in 2011, an increase of Php69 million, or 160%, from Php43 million in 2010, primarily due to the combined effects of the following: (i) a decrease in financing costs by Php131 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (ii) decrease in net foreign exchange losses by Php34 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2011; (iii) net losses on derivative financial instruments of Php4 million in 2011 due to mark-to-market loss from forward foreign exchange contracts; (iv) a decrease in interest income by Php5 million due to lower interest earned; and (v) a decrease in other income by Php87 million mainly due to lower de-recognition of liabilities, partially offset by a gain on sale of SPi’s medical transcription business.

## Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php118 million in 2011 as against a benefit from income tax of Php64 million in 2010, primarily due to higher taxable income in 2011, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords Private Ltd. for the period from November 1, 2011 to December 31, 2011.

## Net Income

As a result of the foregoing, our BPO business registered a net income of Php984 million, an increase of Php1,246 million, or 476%, in 2011 as against a net loss of Php262 million in 2010.

## EBITDA

As a result of the foregoing, our BPO business’ EBITDA increased by Php288 million, or 23%, to Php1,558 million in 2011 from Php1,270 million in 2010.

## Core Income

Our BPO business’ core income amounted to Php906 million in 2011, an increase of Php141 million, or 18%, as compared with Php765 million in 2010 mainly as a result of increases in BPO revenues and other income, partially offset by an increase in BPO-related expenses and provision for income tax.

## Others

### Expenses

Expenses associated with our other business totaled Php11 million in 2011, a decrease of Php8 million, or 42%, as compared with Php19 million in 2010, primarily due to PCEV’s lower expenses related to communication, as well as professional and other contracted services.

## Other Income

The following table summarizes the breakdown of other income for other services for the years ended December 31, 2011 and 2010:

	2011	2010 <sup>(1)</sup>	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,843	Php1,229	Php614	50
Interest income	90	147	(57)	(39)
Financing costs	–	(2)	2	100
Foreign exchange losses – net	–	(23)	23	100
Others	65	20	45	225
Total	Php1,998	Php1,371	Php627	46

<sup>(1)</sup> The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. “Description of Business – Overview”.

Other income increased by Php627 million, or 46%, to Php1,998 million in 2011 from Php1,371 million in 2010 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php614 million mainly due to the increase in PCEV’s direct and indirect share in the net earnings of Meralco, partly offset by PCEV’s share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; (ii) an increase in other income by Php45 million; (iii) net losses on foreign exchange revaluation in 2010 of Php23 million by our PCEV business; and (iv) a decrease in interest income by Php57 million as a result of lower average level of investments by our PCEV business.

For the year ended December 31, 2011, Meralco’s reported net income and core income amounted to Php13,227 million and Php14,887 million, respectively, as compared with Php9,685 million and Php12,155 million, respectively, in 2010. These results were due primarily to an increase in billed customers as compared with 2010 and the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission for 2011. PCEV’s share in the reported and core income of Meralco, including its share in Beacon’s results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,843 million and Php2,319 million, respectively, in 2011 and Php1,229 million and Php1,928 million, respectively, in 2010. PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares and 68.8 million shares were transferred on May 12, 2010 and October 25, 2011, respectively, to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010.

## Net Income

As a result of the foregoing, other services registered a net income of Php1,985 million, an increase of Php634 million, or 47%, in 2011 from Php1,351 million in 2010.

## EBITDA

As a result of the foregoing, EBITDA from other services decreased by Php8 million, or 42%, to negative Php11 million in 2011 from negative Php19 million in 2010.

## Core Income

Other services’ core income amounted to Php2,461 million in 2011, an increase of Php395 million, or 19%, as compared with Php2,066 million in 2010 mainly as a result of higher other income and a decrease in expenses, partially offset by an increase in provision for income tax.



## 2010 Compared to 2009

### On a Consolidated Basis

#### Revenues

Our revenues for 2010 decreased by Php3,636 million, or 2%, to Php158,387 million from Php162,023 million in 2009 primarily due to a decline in our service revenues by Php3,427 million as a result of decreases in cellular, satellite and other revenues from our wireless business, national and international long distance, and local exchange services from our fixed line business, as well as lower customer relationship management revenues from our BPO business. These were partially offset by higher data and other network service revenues from our fixed line business.

The following table shows the breakdown of our consolidated revenues for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php105,381	67	Php108,367	67	(Php2,986)	(3)
Fixed line	60,158	38	61,930	38	(1,772)	(3)
BPO	8,112	5	8,534	5	(422)	(5)
Inter-segment transactions	(15,264)	(10)	(16,808)	(10)	1,544	(9)
Consolidated	Php158,387	100	Php162,023	100	(Php3,636)	(2)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

#### Expenses

Our expenses in 2010 decreased by Php1,310 million, or 1%, to Php102,831 million from Php104,141 million in 2009 largely resulting from decreases in asset impairment, cost of sales, selling and promotions, taxes and licenses, interconnection costs, rent, and communication, training and travel expenses partly offset by higher compensation and employee benefits, repairs and maintenance, depreciation and amortization, and professional and other contracted services.

The following table shows the breakdown of our consolidated expenses for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php59,807	58	Php63,275	61	(Php3,468)	(5)
Fixed line	50,243	49	49,713	47	530	1
BPO	8,481	8	8,282	8	199	2
Others	19	–	–	–	19	100
Inter-segment transactions	(15,719)	(15)	(17,129)	(16)	1,410	(8)
Consolidated	Php102,831	100	Php104,141	100	(Php1,310)	(1)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

#### Other Expenses

Other expenses – net in 2010 amounted to Php1,871 million, a decrease of Php1,172 million, or 39%, from Php3,043 million in 2009 primarily due to the combined effects of the following: (i) net increase in equity share in net earnings of associates and joint ventures of Php1,406 million which was mainly due to PCEV's equity share in net earnings of Meralco, of which 68.8 million Meralco shares are held directly by PCEV and an additional 317.8 million Meralco shares are held through Beacon, in which PCEV acquired a 50% equity interest

effective March 31, 2010 in exchange for transferring 154.2 million Meralco shares to Beacon; (ii) higher net foreign exchange gains by Php898 million in 2010 as compared with 2009 mainly due to the revaluation of foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) higher net losses on derivative financial instruments by Php735 million due to Smart's gain in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009 partially offset by lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts; (iv) lower interest income by Php339 million due to lower average level of money market placements and special deposits; (v) an increase in net financing costs by Php142 million mainly due to higher interest on loans and other related items – net, on account of PLDT's and Smart's higher average loan balances, and higher accretion on amortization of debt issuance cost and debt discount, and BPO business' higher accretion on contingent consideration for business acquisitions; and (vi) increase in other income by Php84 million mainly due to gain on disposal of fixed assets of our wireless business and reversal of prior year's provision by our fixed line business, partially offset by lower gain on fixed assets disposal by our fixed line business.

The following table shows the breakdown of our consolidated other expenses – net for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	(Php136)	7	(Php813)	27	Php677	(83)
Fixed line	(2,694)	144	(3,373)	111	679	(20)
BPO	43	(2)	(498)	16	541	(109)
Others	1,371	(73)	1,962	(65)	(591)	(30)
Inter-segment transactions	(455)	24	(321)	11	(134)	42
Consolidated	(Php1,871)	100	(Php3,043)	100	Php1,172	(39)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview".

### Provision for Income Tax

Provision for income tax decreased by Php1,318 million, or 9%, to Php13,426 million in 2010 from Php14,744 million in 2009 mainly due to lower taxable income from our fixed line, BPO and other businesses.

### Net Income

As a result, our consolidated net income in 2010 was Php40,259 million, an increase of Php164 million from Php40,095 million in 2009 primarily on account of decreases in consolidated provision for income tax, consolidated expenses and consolidated other expenses – net partially offset by a decrease in consolidated revenues.

The following table shows the breakdown of our consolidated net income for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php34,025	85	Php31,823	79	Php2,202	7
Fixed line	5,145	13	6,616	17	(1,471)	(22)
BPO	(262)	(1)	(248)	(1)	(14)	6
Others	1,351	3	1,904	5	(553)	(29)
Consolidated	Php40,259	100	Php40,095	100	Php164	–

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview".

## EBITDA

Our consolidated EBITDA was Php83,717 million in 2010, a decrease of Php2,477 million, or 3%, as compared with Php86,194 million in 2009 primarily due to a decline in our service revenue across our businesses and higher expenses related to compensation and employee benefits, repairs and maintenance, and professional and other contracted services, partly offset by lower expenses particularly provision for doubtful accounts, cost of sales, selling and promotions, and taxes and licenses.

The following table shows the breakdown of our consolidated EBITDA for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php58,964	70	Php59,411	69	(Php447)	(1)
Fixed line	23,047	28	25,512	30	(2,465)	(10)
BPO	1,270	2	950	1	320	34
Others	(19)	–	–	–	(19)	(100)
Inter-segment transactions	455	–	321	–	134	42
Consolidated	Php83,717	100	Php86,194	100	(Php2,477)	(3)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview".

## Core Income

Our consolidated core income in 2010 was Php42,028 million, an increase of Php890 million, or 2%, as compared with Php41,138 million in 2009 primarily due to decreases in consolidated provision for income tax and consolidated expenses, partially offset by a decrease in consolidated revenues.

The following table shows the breakdown of our consolidated core income for the years ended December 31, 2010 and 2009 by business segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Change	
					Amount	%
	(in millions)					
Wireless	Php33,352	79	Php31,715	77	Php1,637	5
Fixed line	5,845	14	8,344	20	(2,499)	(30)
BPO	765	2	(230)	–	995	433
Others	2,066	5	1,311	3	755	58
Inter-segment transactions	–	–	(2)	–	2	100
Consolidated	Php42,028	100	Php41,138	100	Php890	2

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 1. "Description of Business – Overview".

A reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income and a reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS to common equity holders of PLDT are presented in Note 4 – Operating Segment Information to the accompanying consolidated financial statements in Item 7.

## On a Business Segment Basis

### Wireless

#### Revenues

Revenues generated from our wireless business amounted to Php105,381 million in 2010, a decrease of Php2,986 million, or 3%, from Php108,367 million in 2009.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2010 and 2009 by service segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Cellular	Php95,520	91	Php98,145	91	(Php2,625)	(3)
Wireless broadband, satellite and others						
Wireless broadband	6,287	6	5,384	5	903	17
Satellite and others	2,217	2	3,143	2	(926)	(29)
	104,024	99	106,672	98	(2,648)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,357	1	1,695	2	(338)	(20)
Total Wireless Revenues	Php105,381	100	Php108,367	100	(Php2,986)	(3)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

### Service Revenues

Our wireless service revenues decreased by Php2,648 million, or 2%, to Php104,024 million in 2010 as compared with Php106,672 million in 2009, mainly as a result of lower revenues from our cellular services, and satellite and other service revenues, partially offset by the increase in the revenue contribution of our broadband services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international text messaging services because of the continued increase in multiple SIM card ownership, intense competition, the continued decline in yields from SMS as a result of aggressive pricing offers, and the prescribed extension of load validity periods. The decline was partially offset, however, by an increase in domestic voice revenues due to the continued patronage of unlimited voice offers, which were introduced starting in the second half of 2009. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the sale of transponders by Mabuhay Satellite. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for 2010 were lower as compared with 2009. We expect the decreasing trend in our cellular revenues, particularly our revenues from domestic and international text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership, continued decline in yields from SMS and competitive pressure. As a percentage of our total wireless revenues, service revenues increased to 99% in 2010 from 98% in 2009.

### Cellular Service

Our cellular service revenues in 2010 amounted to Php95,520 million, a decrease of Php2,625 million, or 3%, from Php98,145 million in 2009. Cellular service revenues accounted for 92% of our wireless service revenues in each of 2010 and 2009.

The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
(in millions)				
Cellular service revenues	Php95,520	Php98,145	(Php2,625)	(3)
<i>By service type</i>				
Prepaid	92,914	95,673	(2,759)	(3)
Postpaid	84,385	86,625	(2,240)	(3)
	8,529	9,048	(519)	(6)
<i>By component</i>				
Voice	92,914	95,673	(2,759)	(3)
Data	45,678	43,642	2,036	5
	47,236	52,031	(4,795)	(9)
<i>Others</i> <sup>(2)</sup>	2,606	2,472	134	5

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(2)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLP services, a small number of leased line contracts, and revenues from Chikka, Wolfpac and other Smart subsidiaries.

	2010	2009	Increase (Decrease)	
			Amount	%
Cellular subscriber base	45,636,008	41,328,641	4,307,367	10
Prepaid	45,214,433	40,893,098	4,321,335	11
<i>Smart Prepaid</i>	25,293,443	23,762,814	1,530,629	6
<i>Talk 'N Text</i>	18,967,381	17,050,713	1,916,668	11
<i>Red Mobile</i>	953,609	79,571	874,038	1,098
Postpaid	421,575	435,543	(13,968)	(3)
<i>Smart</i>	421,575	435,543	(13,968)	(3)
Systemwide traffic volumes (in millions)				
Calls (in minutes)	26,813	16,305	10,508	64
Domestic	23,787	13,371	10,416	78
<i>Inbound</i>	1,437	1,495	(58)	(4)
<i>Outbound</i>	22,350	11,876	10,474	88
International	3,026	2,934	92	3
<i>Inbound</i>	2,817	2,738	79	3
<i>Outbound</i>	209	196	13	7
SMS/Data count (in hits)	341,113	287,921	53,192	18
Text messages	339,530	286,294	53,236	19
Domestic	339,011	285,847	53,164	19
<i>Inbound</i>	8,058	8,289	(231)	(3)
<i>Outbound</i>	330,953	277,558	53,395	19
Bucket-Priced	312,634	258,190	54,444	21
Standard	18,319	19,368	(1,049)	(5)
International	519	447	72	16
<i>Inbound</i>	211	136	75	55
<i>Outbound</i>	308	311	(3)	(1)
Value-Added Services	1,557	1,608	(51)	(3)
Financial Services	26	19	7	37

Revenues attributable to our prepaid cellular service amounted to Php84,385 million in 2010, a decrease of Php2,240 million, or 3%, as compared with Php86,625 million earned in 2009. Prepaid cellular service revenues accounted for 91% of cellular voice and data revenues in each of 2010 and 2009. Revenues attributable to Smart's postpaid cellular service amounted to Php8,529 million in 2010, a decrease of Php519 million, or 6%, as compared with Php9,048 million earned in 2009, and accounted for 9% of cellular voice and data revenues in each of 2010 and 2009.

#### Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php2,036 million, or 5%, to

Php45,678 million in 2010 from Php43,642 million in 2009 primarily due to an increase in domestic call revenues, partially offset by a decrease in international call revenues. Cellular voice services accounted for 48% of our cellular service revenues in 2010 as compared with 44% in 2009.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup> (in millions)	Increase (Decrease)	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php5,203	Php5,095	Php108	2
Outbound	22,807	19,840	2,967	15
	<u>28,010</u>	<u>24,935</u>	<u>3,075</u>	<u>12</u>
<i>International</i>				
Inbound	14,738	15,316	(578)	(4)
Outbound	2,930	3,391	(461)	(14)
	<u>17,668</u>	<u>18,707</u>	<u>(1,039)</u>	<u>(6)</u>
Total	<u>Php45,678</u>	<u>Php43,642</u>	<u>Php2,036</u>	<u>5</u>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Domestic voice service revenues increased by Php3,075 million, or 12%, to Php28,010 million in 2010 from Php24,935 million in 2009 primarily due to an increase in domestic outbound call revenues by Php2,967 million, or 15%, to Php22,807 million in 2010 from Php19,840 million in 2009 mainly due to increased patronage of unlimited voice offerings, complemented by an increase in the revenue contribution of our inbound domestic voice service by Php108 million, or 2%, to Php5,203 million in 2010 from Php5,095 million in 2009 as a result of an increase in revenues from other domestic carriers. Outbound domestic call volumes increased by 10,474 million minutes, or 88%, to 22,350 million minutes in 2010 from 11,876 million minutes in 2009. The increase in inbound domestic call volumes from other domestic carriers was offset by the decrease in call volumes from PLDT's regular and fixed rate call packages, which resulted in the overall decrease in our inbound domestic call volumes by 58 million minutes, or 4%, to 1,437 million minutes in 2010 from 1,495 million minutes in 2009. The aggregate increase in volumes was mainly due to the higher call volumes from unlimited voice offerings.

International voice service revenues decreased by Php1,039 million, or 6%, to Php17,668 million in 2010 from Php18,707 million in 2009 primarily due to a decline in inbound international voice service revenues by Php578 million, or 4%, to Php14,738 million in 2010 from Php15,316 million in 2009 and due to a decline in outbound international voice service revenues by Php461 million, or 14%, to Php2,930 million in 2010 from Php3,391 million in 2009. The decline in international voice service revenues was due to the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009. On the other hand, international inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in our cellular subscriber base.

#### *Data Services*

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php4,795 million, or 9%, to Php47,236 million in 2010 from Php52,031 million in 2009. Cellular data services accounted for 49% and 53% of our cellular service revenues in 2010 and 2009, respectively.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php41,070	Php45,903	(Php4,833)	(11)
<i>Bucket-Priced/Unlimited</i>	23,836	26,797	(2,961)	(11)
<i>Standard</i>	17,234	19,106	(1,872)	(10)
International	3,534	3,625	(91)	(3)
	<u>44,604</u>	<u>49,528</u>	<u>(4,924)</u>	<u>(10)</u>
Value-added services				
Internet-based <sup>(2)</sup>	858	526	332	63
MMS-based <sup>(3)</sup>	568	885	(317)	(36)
SMS-based <sup>(4)</sup>	684	648	36	6
<i>Pasa Load</i> <sup>(5)</sup>	483	413	70	17
	<u>2,593</u>	<u>2,472</u>	<u>121</u>	<u>5</u>
Financial services	39	31	8	26
Total	<u>Php47,236</u>	<u>Php52,031</u>	<u>(Php4,795)</u>	<u>(9)</u>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(2)</sup> Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs. Uzzap is an IP-based messaging service that allows instant messaging, email, SMS, group messages, chatting, etc.

<sup>(3)</sup> Includes revenues from Pasa Load and Dial\*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial\*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.

<sup>(4)</sup> Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.

<sup>(5)</sup> Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

Text messaging-related services contributed revenues of Php44,604 million in 2010, a decrease of Php4,924 million, or 10%, as compared with Php49,528 million in 2009, and accounted for 94% and 95% of our total cellular data revenues in 2010 and 2009, respectively. The decrease in revenues from text messaging-related services resulted mainly from the continued decline in SMS yield as a result of aggressive SMS pricing offers and the increased number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards. Other factors that contributed to this decline in revenues were the prescribed extension of load validity periods and cheaper alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php23,836 million in 2010, a decrease of Php2,961 million, or 11%, as compared with Php26,797 million in 2009. Likewise, standard text messaging revenues decreased by Php1,872 million, or 10%, to Php17,234 million in 2010 from Php19,106 million in 2009. The decrease in international text messaging revenues was mainly due to the decline in SMS yield as a result of the bucket offers as well as the increase in the average roaming SMS settlement cost.

Bucket-priced text messages in 2010 totaled 312,634 million, an increase of 54,444 million, or 21%, as compared with 258,190 million in 2009, primarily due to the continued patronage of bucket and unlimited text messaging offers. Standard text messages totaled 18,319 million in 2010, a decrease of 1,049 million, or 5%, as compared with 19,368 million in 2009, as a result of subscribers moving to bucket-priced text services.

VAS contributed revenues of Php2,593 million in 2010, an increase of Php121 million, or 5%, as compared with Php2,472 million in 2009, primarily due to an increase in revenues from internet-based VAS, which increased by Php332 million, or 63%, to Php858 million in 2010 from Php526 million in 2009, and Pasa Load, partially offset by lower usage of MMS-based VAS.

#### *Subscriber Base, ARPU and Churn Rates*

As at December 31, 2010, Smart, including Talk 'N Text and Red Mobile subscribers totaled 45,636,008 an increase of 4,307,367, or 10%, over their combined cellular subscriber base of 41,328,641 as at December 31, 2009. Our cellular prepaid subscriber base grew by 11% to 45,214,433 as at December 31, 2010 from 40,893,098 as at December 31, 2009, while our cellular postpaid subscriber base decreased by 13,968, or 3%, to 421,575 as at

December 31, 2010 from 435,543 as at December 31, 2009. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2010 and 2009.

Our net subscriber activations for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009	Increase (Decrease)	
			Amount	%
Prepaid	4,321,335	6,066,630	(1,745,295)	(29)
<i>Smart Prepaid</i>	1,530,629	3,261,197	(1,730,568)	(53)
<i>Talk 'N Text</i>	1,916,668	2,742,220	(825,552)	(30)
<i>Red Mobile</i>	874,038	63,213	810,825	1,283
Postpaid	(13,968)	37,407	(51,375)	(137)
Total	4,307,367	6,104,037	(1,796,670)	(29)

Our quarterly net subscriber activations (reductions) over the eight quarters in 2010 and 2009 were as follows:

	2010				2009			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,868,812	2,144,244	(1,212,389)	1,520,668	1,692,767	1,575,585	621,154	2,177,124
<i>Smart Prepaid</i>	1,271,132	730,346	(588,862)	118,013	419,821	523,496	644,932	1,672,948
<i>Talk 'N Text</i>	394,984	562,375	128,786	830,523	1,256,907	1,019,162	(32,419)	498,570
<i>Red Mobile</i>	202,696	851,523	(752,313)	572,132	16,039	32,927	8,641	5,606
Postpaid	9,870	(5,569)	(21,266)	2,997	9,328	17,746	6,806	3,527
Total	1,878,682	2,138,675	(1,233,655)	1,523,665	1,702,095	1,593,331	627,960	2,180,651

Prepaid and postpaid subscribers reflected net activations of 4,321,335 and net reductions of 13,968, respectively, in 2010 as compared with net activations of 6,066,630 and 37,407, respectively, in 2009.

For *Smart Prepaid*, the average monthly churn rate in 2010 and 2009 was 5.0% and 4.2%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers was 5.3% and 5.0% in 2010 and 2009, respectively. The average monthly churn rate for *Red Mobile* subscribers was 26.9% and 12.3% in 2010 and 2009, respectively.

The average monthly churn rate for Smart's postpaid subscribers is 2.4% and 1.9% for 2010 and 2009, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.



The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2010 and 2009:

	Gross <sup>(1)</sup>		Decrease		Net <sup>(2)</sup>		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Prepaid	Php220	Php261	(Php41)	(16)	Php193	Php230	(Php37)	(16)
Talk 'N Text	139	161	(22)	(14)	122	140	(18)	(13)
Red Mobile	11	20	(9)	(45)	9	15	(6)	(40)
Prepaid – Blended <sup>(3)</sup>	183	218	(35)	(16)	161	191	(30)	(16)
Postpaid – Smart	1,678	1,817	(139)	(8)	1,638	1,781	(143)	(8)
Prepaid and Postpaid Blended <sup>(4)</sup>	198	235	(37)	(16)	175	209	(34)	(16)

<sup>(1)</sup> 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.

<sup>(2)</sup> Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, by the average number of subscribers in the month. Net monthly ARPUs in 2010 and 2009 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(3)</sup> The average monthly ARPU of Smart Prepaid, Talk 'N Text and Red Mobile.

<sup>(4)</sup> The average monthly ARPU of all prepaid and postpaid cellular subscribers.

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2010 was Php183, a decrease of 16%, as compared with Php218 in 2009. The decrease was primarily due to a decline in the average outbound domestic text messaging revenue per subscriber, as well as a drop in the average inbound international and domestic voice revenue per subscriber in 2010 as compared with the same period in 2009. On a net basis, prepaid blended average monthly ARPU in 2010 was Php161, a decrease of 16%, as compared with Php191 in 2009.

Gross average monthly ARPU for postpaid subscribers decreased by 8% to Php1,678 as net average monthly ARPU decreased by 8% to Php1,638 in 2010 as compared with Php1,817 and Php1,781 in 2009, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php198 in 2010, a decrease of 16%, as compared with Php235 in 2009. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 16% to Php175 in 2010 from Php209 in 2009.

Our average monthly prepaid and postpaid ARPUs per quarter in 2010 and 2009 were as follows:

	Prepaid						Postpaid	
	Smart Prepaid		Talk 'N Text		Red Mobile		Smart	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<b>2010</b>								
First Quarter	Php232	Php204	Php140	Php122	Php11	Php9	Php1,686	Php1,666
Second Quarter	224	197	141	123	4	4	1,665	1,627
Third Quarter	207	181	135	118	6	5	1,661	1,614
Fourth Quarter	215	189	140	123	22	19	1,702	1,646
<b>2009</b>								
First Quarter	272	239	176	153	25	16	1,863	1,831
Second Quarter	269	236	168	145	16	11	1,816	1,779
Third Quarter	249	219	148	129	19	14	1,801	1,761
Fourth Quarter	252	224	152	134	18	17	1,791	1,756

<sup>(1)</sup> Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.

<sup>(2)</sup> Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2010 and 2009 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

#### Wireless Broadband, Satellite and Other Services

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

### Wireless Broadband

Revenues from our wireless broadband services increased by Php903 million, or 17% to Php6,287 million in 2010 from Php5,384 million in 2009, primarily due to the 31% growth in broadband subscriber base.

SBI offers a number of wireless broadband services and had a total of 1,355,977 subscribers as at December 31, 2010, an increase of 318,257 subscribers, or 31%, as compared with 1,037,720 subscribers as at December 31, 2009. Our postpaid wireless broadband subscriber base decreased by 5,280 subscribers, or 1%, to 430,757 subscribers as at December 31, 2010 from 436,037 subscribers as at December 31, 2009, while our prepaid wireless broadband subscriber base increased by 323,537 subscribers, or 54%, to 925,220 subscribers as at December 31, 2010 from 601,683 subscribers as at December 31, 2009.

### Satellite and Other Services

Revenues from our satellite and other services decreased by Php926 million, or 29%, to Php2,217 million in 2010 from Php3,143 million in 2009, primarily due to the lower satellite transponder rental revenues as a result the sale of transponders by Mabuhay Satellite and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 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 decreased by Php338 million, or 20%, to Php1,357 million in 2010 as compared with Php1,695 million in 2009 primarily due to the lower combined average retail price of cellular phonekits and SIM-packs, as well as broadband data modems.

### Expenses

Expenses associated with our wireless business in 2010 amounted to Php59,807 million, a decrease of Php3,468 million, or 5%, from Php63,275 million in 2009. A significant portion of this decrease was attributable to lower expenses related to rent, asset impairment, cost of sales, interconnection costs, taxes and licenses, and selling and promotions, partially offset by higher expenses related to repairs and maintenance, compensation and employee benefits, professional and other contracted services, and insurance and security services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 57% and 58% in 2010 and 2009, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php13,243	22	Php13,237	21	Php6	–
Interconnection costs	10,194	17	10,843	17	(649)	(6)
Rent	9,038	15	10,553	17	(1,515)	(14)
Compensation and employee benefits <sup>(1)</sup>	6,385	11	6,059	10	326	5
Repairs and maintenance	5,058	9	4,340	7	718	17
Selling and promotions	3,809	6	4,051	6	(242)	(6)
Cost of sales	3,587	6	4,363	7	(776)	(18)
Professional and other contracted services	3,104	5	2,904	5	200	7
Taxes and licenses	1,681	3	2,022	3	(341)	(17)
Communication, training and travel	946	2	972	1	(26)	(3)
Insurance and security services	831	1	781	1	50	6
Asset impairment	824	1	2,026	3	(1,202)	(59)
Amortization of intangible assets	134	–	126	–	8	6
Other expenses	973	2	998	2	(25)	(3)
<b>Total</b>	<b>Php59,807</b>	<b>100</b>	<b>Php63,275</b>	<b>100</b>	<b>(Php3,468)</b>	<b>(5)</b>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(2)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges increased by Php6 million to Php13,243 million in 2010 principally due to an increase in depreciation on the growing asset base of 3G and 2G networks.

Interconnection costs decreased by Php649 million, or 6%, to Php10,194 million primarily due to inter-operator rebates, a decrease in outbound traffic for domestic calls and SMS and the appreciation of the Philippine peso relative to the U.S. dollar.

Rent expenses decreased by Php1,515 million, or 14%, to Php9,038 million primarily due to decrease in domestic leased circuits partially offset by the increase in cell site rental charges as a result of increase in the number of cell sites. In 2010, we had 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations, as compared with 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations in 2009.

Compensation and employee benefits expenses increased by Php326 million, or 5%, to Php6,385 million primarily due to higher MRP costs and higher salaries and employee benefits as a result of merit-based increases, partially offset by the lower provision for LTIP and pension benefits. Employee headcount of Smart and its subsidiaries decreased to 5,165 in 2010 as compared with 5,454 in 2009.

Repairs and maintenance expenses increased by Php718 million, or 17%, to Php5,058 million mainly due to an increase in cellular network facilities and software maintenance expenses, higher site electricity cost and higher fuel costs for power generation, partly offset by lower maintenance charges for computer hardware and broadband network facilities.

Selling and promotion expenses decreased by Php242 million, or 6%, to Php3,809 million primarily due to lower spending on advertising and promotional campaigns and commission expenses.

Cost of sales decreased by Php776 million, or 18%, to Php3,587 million primarily due to the lower combined average cost of cellular phonekits and SIM-packs, the lower average cost of cellular retention packages and the lower average cost of broadband modems.

Professional and other contracted service fees increased by Php200 million, or 7%, to Php3,104 million primarily due to the increase in consultancy fees, management fees, corporate membership fees, outsourced service fees and other professional fees, partly offset by the lower contracted service fees, customer relationship management service fees and technical service fees.

Taxes and licenses expenses decreased by Php341 million, or 17%, to Php1,681 million primarily due to lower non-creditable input taxes and business-related license fees.

Communication, training and travel expenses decreased by Php26 million, or 3%, to Php946 million primarily due to lower communication, training and travel expenses.

Insurance and security services expenses increased by Php50 million, or 6%, to Php831 million primarily due to higher site security expense and insurance premiums, partially offset by lower office security expense.

Asset impairment decreased by Php1,202 million, or 59%, to Php824 million mainly due to the impairment loss recognized on the investment in Blue Ocean Wireless in 2009, lower provision for uncollectible receivables from subscribers and lower provision for obsolescence of slow-moving commercial and network inventory in 2010.

Amortization of intangible assets increased by Php8 million, or 6%, to Php134 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses decreased by Php25 million, or 3%, to Php973 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 expenses – net for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains – net	Php888	Php516	Php372	72
Interest income	551	635	(84)	(13)
Gains (losses) on derivative financial instruments – net	3	(4)	7	175
Equity share in net losses of associates	(7)	(466)	459	(98)
Financing costs – net	(2,681)	(2,611)	(70)	3
Others	1,110	1,117	(7)	(1)
Total	(Php136)	(Php813)	Php677	(83)

<sup>(1)</sup> The 2010 and 2009 other income and expenses have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in Item 1. "Description of Business – Overview".

Our wireless business' other expenses amounted to Php136 million in 2010, a decrease of Php677 million, or 83%, from Php813 million in 2009 primarily due to the combined effects of the following: (i) net decrease in equity share in net losses of associates by Php459 million; (ii) net increase in foreign exchange gains by Php372 million on account of higher gains on revaluation of net foreign currency-denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) decrease in other income by Php7 million mainly due to a gain on sale of investment in 2009, partially offset by a gain on sale of fixed assets in 2010; (iv) higher net financing costs by Php70 million primarily due to higher interest on loans and other related items on account of Smart's higher average loan balances and increase in accretion of financial liabilities partly offset by the increase in capitalized interest; (v) decrease in interest income by Php84 million mainly due to Smart's lower average level of short-term investments; and (vi) net gain on derivative financial instruments of Php3 million in 2010 as compared with net losses on derivative financial instruments of Php4 million in 2009 mainly due to lower mark-to-market loss in 2010.

## Provision for Income Tax

Provision for income tax decreased by Php1,043 million, or 8%, to Php11,413 million in 2010 from Php12,456 million in 2009 due to tax recognized on the transfer of the *Talk 'N Text* business to Smart in 2009. In 2010, the effective tax rate for our wireless business was 25% as compared with 28% in 2009. Smart and certain of its subsidiaries opted to use the optional standard deduction, or OSD, method in computing their taxable income in 2010 and 2009.

## Net Income

As a result of the foregoing, our wireless business recorded a net income of Php34,025 million in 2010, an increase of Php2,202 million, or 7%, from Php31,823 million recorded in 2009.

## EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php447 million, or 1%, to Php58,964 million in 2010 from Php59,411 million in 2009.

## Core Income

Our wireless business' core income increased by Php1,637 million, or 5%, to Php33,352 million in 2010 from Php31,715 million in 2009 on account of a decrease in the wireless-related expenses and lower provision for income tax, partially offset by a decrease in wireless revenues.

## Fixed Line

### Revenues

Revenues generated from our fixed line business amounted to Php60,158 million in 2010, a decrease of Php1,772 million, or 3%, from Php61,930 million in 2009.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2010 and 2009 by service segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
(in millions)						
Service Revenues:						
Local exchange	Php15,342	25	Php15,681	24	(Php339)	(2)
International long distance	11,112	18	11,581	19	(469)	(4)
National long distance	6,487	11	7,853	13	(1,366)	(17)
Data and other network	22,785	38	22,697	37	88	–
Miscellaneous	3,399	6	3,177	5	222	7
	59,125	98	60,989	98	(1,864)	(3)
Non-Service Revenues:						
Sale of computers, PLP units and SIM cards	1,033	2	941	2	92	10
<b>Total Fixed Line Revenues</b>	<b>Php60,158</b>	<b>100</b>	<b>Php61,930</b>	<b>100</b>	<b>(Php1,772)</b>	<b>(3)</b>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

### Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php1,772 million, or 3%, to Php60,158 million in 2010 from Php61,930 million in 2009 due to decreases in revenues from our international and national long distance, and local exchange services, partially offset by the increase in revenues from our data and other network services.

#### Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php15,342	Php15,681	(Php339)	(2)
Number of fixed line subscribers	1,822,105	1,816,541	5,564	–
Postpaid	1,703,998	1,637,981	66,017	4
Prepaid	118,107	178,560	(60,453)	(34)
Number of fixed line employees	7,395	7,947	(552)	(7)
Number of fixed line subscribers per employee	246	229	17	7

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Revenues from our local exchange service decreased by Php339 million, or 2%, to Php15,342 million in 2010 from Php15,681 million in 2009 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of PLDT Call All service promotions related to PLP. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of 2010 and 2009.

*PLP* offers both postpaid and prepaid wireless services, which allows subscribers to bring the telephone set anywhere within the home zone area.

There are two plans being offered for the *PLP* postpaid regular service: (a) Plan 600 with 600 free local outgoing minutes; and (b) Plan 1,000 with 1,000 free local outgoing minutes, and a charge of Php1 per minute in excess of free minutes for both plans. Another postpaid service we offer is the *Call All* plan in which *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers the *Internet@Home* service, which is a voice and data bundle offered in two plans with monthly service fees of Php990 and Php1,299.

There are two load plans being offered for the *PLP* prepaid service: (a) Php300 load denomination with free 150 local outgoing minutes; and (b) Php600 load denomination with free 600 local outgoing minutes. Both prepaid plans include unlimited incoming calls for one month and charges Php2 per minute and Php1 per minute in excess of free local outgoing minutes for Php300 and Php600 denominations, respectively. There were a total of 304,624 active *PLP* subscribers as at December 31, 2010, of which 271,432 and 33,192 were postpaid and prepaid subscribers, respectively, compared to a total of 224,165 active *PLP* subscribers as at December 31, 2009, of which 171,605 and 52,560 were postpaid and prepaid subscribers, respectively.

#### *International Long Distance Service*

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php11,112	Php11,581	(Php469)	(4)
Inbound	9,851	10,105	(254)	(3)
Outbound	1,261	1,476	(215)	(15)
International call volumes (in million minutes, except call ratio)	1,714	1,863	(149)	(8)
Inbound	1,515	1,653	(138)	(8)
Outbound	199	210	(11)	(5)
Inbound-outbound call ratio	7.6:1	7.9:1	–	–

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Our total international long distance service revenues decreased by Php469 million, or 4%, to Php11,112 million in 2010 from Php11,581 million in 2009 primarily due to the decrease in call volumes, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and a lower average collection rate. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% in each of 2010 and 2009.

Our revenues from inbound international long distance service decreased by Php254 million, or 3%, to Php9,851 million in 2010 from Php10,105 million in 2009 due to a decline in inbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars, partially offset by a higher average settlement rate.

Our revenues from outbound international long distance service decreased by Php215 million, or 15%, to Php1,261 million in 2010 from Php1,476 million in 2009 primarily due to the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009, resulting in a decrease in the average billing rates to Php45.31 in 2010 from Php47.78 in 2009, a decline in outbound call volumes and a lower average collection rate in dollar terms.

### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php6,487	Php7,853	(Php1,366)	(17)
National long distance call volumes (in million minutes)	1,290	1,822	(532)	(29)

(1) The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Our national long distance service revenues decreased by Php1,366 million, or 17%, to Php6,487 million in 2010 from Php7,853 million in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 11% in 2010 from 13% in 2009.

### Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php22,785	Php22,697	Php88	–
Domestic	15,646	16,393	(747)	(5)
Broadband	8,511	7,232	1,279	18
DSL	8,263	7,024	1,239	18
WeRoam	248	208	40	19
Leased Lines and Others	7,135	9,161	(2,026)	(22)
International				
Leased Lines and Others	6,241	5,491	750	14
Vitro™ Data Center	898	812	86	10
Subscriber base:				
Broadband	665,027	576,687	88,340	15
DSL	643,048	559,664	83,384	15
WeRoam	21,979	17,023	4,956	29
SWUP	15,641	12,383	3,258	26

(1) The 2010 and 2009 results have been restated to reflect the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 1. "Description of Business – Overview", and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

Our data and other network services posted revenues of Php22,785 million in 2010, an increase of Php88 million from Php22,697 million in 2009 primarily due to an increase in domestic broadband services, owing to higher revenues from PLDT DSL, as well as an increase in international data revenues, particularly from i-Gate, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues increased to 38% in 2010 from 37% in 2009.

### Domestic

Domestic data services contributed Php15,646 million in 2010, a decrease of Php747 million, or 5%, as compared with Php16,393 million in 2009 mainly due to lower Diginet revenues partially offset by the continued growth in DSL, Shops.Work Unplugged, or SWUP, IP-VPN and Metro Ethernet subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased.

The percentage contribution of domestic data service revenues to total data and other network services decreased to 69% in 2010 from 72% in 2009.

### *Broadband*

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate subscribers with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php8,511 million in 2010, an increase of Php1,279 million, or 18%, from Php7,232 million in 2009 primarily due to the higher revenue contribution of DSL which contributed revenues of Php8,263 million in 2010 from Php7,024 million in 2009 as a result of the increase in the number of subscribers, partially offset by the lower ARPU as a result of the launching of lower-priced promotional plans. DSL revenues accounted for 36% and 31% of total data and other network service revenues in 2010 and 2009, respectively. DSL subscribers increased by 15% to 643,048 subscribers as at December 31, 2010 from 559,664 subscribers in 2009. *WeRoam* revenues amounted to Php248 million in 2010 from Php208 million in 2009 as subscribers increased by 29% to 21,979 subscribers in 2010 from 17,023 subscribers in 2009.

### *Leased Lines and Others*

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2010, *SWUP* has a total subscriber base of 15,641 up from 12,383 subscribers in 2009. Leased lines and other data revenues amounted to Php7,135 million in 2010, a decrease of Php2,026 million, or 22%, from Php9,161 million in 2009 primarily due to a decrease in Diginet revenues partially offset by the higher revenues from IP-VPN and Metro Ethernet. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 31% and 40% in 2010 and 2009, 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, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php750 million, or 14%, to Php6,241 million in 2010 from Php5,491 million in 2009 primarily due to an increase in i-Gate revenues. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 27% and 24% in 2010 and 2009, respectively.

#### *Vitro*<sup>TM</sup> Data Center

*Vitro*<sup>TM</sup> data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php86 million, or 10%, to Php898 million in 2010 from Php812 million in 2009 mainly due to higher co-location and managed services. The percentage contribution of *Vitro*<sup>TM</sup> revenues to our total fixed line service revenues accounted for 4% in each of 2010 and 2009.



### Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees, as well as from online gaming services. These service revenues increased by Php222 million, or 7%, to Php3,399 million in 2010 from Php3,177 million in 2009 mainly due to an increase in revenues from iPlus, the effect of the inclusion of BayanTrade in the consolidation effective April 1, 2009, rental income owing to higher co-location charges and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 6% and 5% in 2010 and 2009, respectively.

### Non-service Revenues

Non-service revenues increased by Php92 million, or 10%, to Php1,033 million in 2010 from Php941 million in 2009 primarily due to higher sales of *PLP* units and SIM cards.

### Expenses

Expenses related to our fixed line business totaled Php50,243 million in 2010, an increase of Php530 million, or 1%, as compared with Php49,713 million in 2009. The increase was primarily due to higher expenses related to compensation and employee benefits, depreciation and amortization, professional and other contracted services, interconnection costs, and repairs and maintenance, partly offset by lower expenses related to asset impairment, rent, selling and promotions, and insurance and security services. Expenses associated with our fixed line business accounted for 84% and 80% in 2010 and 2009, respectively, of our total fixed line revenues.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits <sup>(2)</sup>	Php12,770	25	Php11,609	24	Php1,161	10
Depreciation and amortization	12,638	25	11,922	24	716	6
Interconnection costs	7,947	16	7,527	15	420	6
Repairs and maintenance	4,886	10	4,617	9	269	6
Professional and other contracted services	3,297	7	2,598	5	699	27
Rent	2,762	5	3,031	6	(269)	(9)
Selling and promotions	1,439	3	1,659	3	(220)	(13)
Cost of sales	1,184	2	1,109	2	75	7
Taxes and licenses	825	2	795	2	30	4
Communication, training and travel	754	2	769	2	(15)	(2)
Asset impairment	596	1	2,982	6	(2,386)	(80)
Insurance and security services	454	1	505	1	(51)	(10)
Amortization of intangible assets	29	–	21	–	8	38
Other expenses	662	1	569	1	93	16
Total	Php50,243	100	Php49,713	100	Php530	1

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 1. "Description of Business – Overview" and the change in the presentation of our outbound revenues, as discussed in Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Data and Key Performance Indicators".

<sup>(2)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Compensation and employee benefits expenses increased by Php1,161 million, or 10%, to Php12,770 million primarily due to higher MRP costs, and salaries and employee benefits due to collective bargaining agreement-related increases, partially offset by lower provisions for pension costs and LTIP. See Note 3 – Management's Use of Judgments, Estimates and Assumptions and Note 25 – Share-based Payments and Employee Benefits to the accompanying consolidated financial statements for further discussion in Item 7 for further discussion.

Depreciation and amortization charges increased by Php716 million, or 6%, to Php12,638 million due to a higher depreciable asset base in 2010 as compared with 2009.

Interconnection costs increased by Php420 million, or 6%, to Php7,947 million primarily due to higher international received paid calls that terminated to other domestic carriers, as well as higher settlement to various

foreign administrations.

Repairs and maintenance expenses increased by Php269 million, or 6%, to Php4,886 million primarily due to higher electricity charges, domestic cable and wire facilities, and higher building repairs and maintenance costs.

Professional and other contracted services increased by Php699 million, or 27%, to Php3,297 million primarily due to higher legal fees and contracted services and technical service fees for customer relationship management outsourcing project services, partially offset by lower management fees.

Rent expenses decreased by Php269 million, or 9%, to Php2,762 million due to a decrease in international leased circuit rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Selling and promotion expenses decreased by Php220 million, or 13%, to Php1,439 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations.

Cost of sales increased by Php75 million, or 7%, to Php1,184 million due to higher cost of SIM and *PLP* units sold to *PLP* prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Taxes and licenses increased by Php30 million, or 4%, to Php825 million as a result of higher business-related taxes.

Communication, training and travel expenses decreased by Php15 million, or 2%, to Php754 million mainly due to lower foreign travel expenses, and mailing and courier charges, partially offset by higher foreign training expenses, fuel consumption and local travel expenses.

Asset impairment decreased by Php2,386 million, or 80%, to Php596 million mainly due to impairment loss on priority deposit to ProtoStar in 2009 partially offset by higher impairment charges on payphone assets and investments in PLDT Italy in 2010.

Insurance and security services decreased by Php51 million, or 10%, to Php454 million primarily due to lower insurance and bond premiums, and lower security services.

Amortization of intangible assets increased by Php8 million, or 38%, to Php29 million primarily due to the additional game licenses acquired by Level Up!

Other expenses increased by Php93 million, or 16%, to Php662 million due to increases in various business and fixed line operational-related expenses.

### ***Other Expenses***

The following table summarizes the breakdown of our total fixed line-related other expenses – net for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains – net	Php985	Php509	Php476	94
Interest income	499	412	87	21
Equity share in net earnings of joint ventures	186	70	116	166
Losses on derivative financial instruments – net	(1,744)	(2,176)	432	(20)
Financing costs – net	(3,864)	(3,804)	(60)	2
Others	1,244	1,616	(372)	(23)
Total	(Php2,694)	(Php3,373)	Php679	(20)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 1. "Description of Business – Overview".

Our fixed line business' other expenses – net amounted to Php2,694 million in 2010, a decrease of Php679 million, or 20%, from Php3,373 million in 2009. The change was due to the combined effects of the following: (i) net increase in foreign exchange gains by Php476 million on account of higher gains on net foreign exchange revaluation of foreign-currency denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) lower loss on derivative financial instruments by Php432 million in 2010 as compared with 2009 due to lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts; (iii) increase in equity share in net earnings of joint ventures by Php116 million; (iv) an increase in interest income by Php87 million due to higher average interest rate and higher level of cash balances; (v) an increase in net financing costs by Php60 million due to an increase in interest expense on loans and related items – net on account of a higher level of average loan balances as well as lower capitalized interest, partially offset by lower level of average interest rate; and (vi) decrease in other income by Php372 million mainly due to the partial recovery of priority deposit from ProtoStar, higher miscellaneous income from consultancy, and subsidiaries and affiliates.

### ***Provision for Income Tax***

Provision for income tax amounted to Php2,076 million in 2010, a decrease of Php152 million, or 7%, as compared with Php2,228 million in 2009 primarily due to lower taxable income.

### ***Net Income***

As a result of the foregoing, in 2010, our fixed line business contributed a net income of Php5,145 million, a decrease of Php1,471 million, or 22%, as compared with Php6,616 million in 2009.

### ***EBITDA***

As a result of the foregoing, our fixed line business' EBITDA decreased by Php2,465 million, or 10%, to Php23,047 million in 2010 from Php25,512 million in 2009.

### ***Core Income***

Our fixed line business' core income decreased by Php2,499 million, or 30%, to Php5,845 million in 2010 from Php8,344 million in 2009 primarily as a result of the decrease in fixed line revenues and an increase in fixed line-related expenses, partially offset by lower provision for income tax.

### **Business Process Outsourcing**

#### ***Revenues***

Our BPO business provides knowledge processing solutions and customer relationship management.

Our BPO business generated revenues of Php8,112 million in 2010, a decrease of Php422 million, or 5%, as compared with Php8,534 million in 2009. The decrease was primarily due to the lower revenue contribution of customer relationship management business, partially offset by the higher revenue contribution of our knowledge processing solutions business.

The following table summarizes our total revenues from our BPO business for the years ended December 31, 2010 and 2009 by service segment:

	2010 <sup>(1)</sup>	%	2009 <sup>(1)</sup> (in millions)	%	Increase (Decrease)	
					Amount	%
Service Revenues:						
Knowledge processing solutions	Php5,289	65	Php5,215	61	Php74	1
Customer relationship management	2,823	35	3,319	39	(496)	(15)
Total BPO Revenues	<u>Php8,112</u>	<u>100</u>	<u>Php8,534</u>	<u>100</u>	<u>(Php422)</u>	<u>(5)</u>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview".

### Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php5,289 million in 2010, an increase of Php74 million, or 1%, from Php5,215 million in 2009. Dollar revenues increased by 8% mainly due to a higher content services and medical billing, partially offset by the appreciation of the Philippine peso to the U.S. dollar by 6%. Knowledge processing solutions business revenues accounted for 65% and 61% of total revenues of our BPO business in 2010 and 2009, respectively.

### Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php496 million, or 15%, to Php2,823 million in 2010 from Php3,319 million in 2009 primarily due to lower dollar-denominated revenues by 14%, lower domestic sales by 1%, and the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 7,045 seats with an average of 4,592 CSRs in 2010, as compared with 7,140 seats with an average of 5,190 CSRs in 2009. SPi CRM had six and seven customer relationship management sites as at December 31, 2010 and 2009, respectively. Customer relationship management business revenues accounted for 35% and 39% of total revenues of our BPO business in 2010 and 2009, respectively.

### Expenses

Expenses associated with our BPO business totaled Php8,481 million in 2010, an increase of Php199 million, or 2%, as compared with Php8,282 million in 2009 primarily due to higher expenses related to asset impairment, insurance and security services, and amortization of intangible assets, partially offset by lower compensation and employee benefits, professional and other contracted services, communication, training and travel, and rent expenses. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 105% and 97% in 2010 and 2009, respectively.

The following table shows the breakdown of our total BPO-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010 <sup>(1)</sup>		2009 <sup>(1)</sup>		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Compensation and employee benefits <sup>(2)</sup>	Php4,922	58	Php5,446	66	(Php524)	(10)
Asset impairment	1,018	12	53	1	965	1,821
Rent	445	5	486	6	(41)	(8)
Professional and other contracted services	427	5	514	6	(87)	(17)
Repairs and maintenance	404	5	408	5	(4)	(1)
Depreciation and amortization	396	4	448	5	(52)	(12)
Communication, training and travel	335	4	389	5	(54)	(14)
Amortization of intangible assets	225	3	221	3	4	2
Taxes and licenses	63	1	64	1	(1)	(2)
Insurance and security services	59	1	51	–	8	16
Selling and promotions	40	–	44	–	(4)	(9)
Other expenses	147	2	158	2	(11)	(7)
<b>Total</b>	<b>Php8,481</b>	<b>100</b>	<b>Php8,282</b>	<b>100</b>	<b>Php199</b>	<b>2</b>

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview".

<sup>(2)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Compensation and employee benefits decreased by Php524 million, or 10%, to Php4,922 million mainly due to a decline in salaries and employee benefits, and the lower provision for LTIP, as well as decreases in MRP costs and pension benefits. Although BPO employee headcount increased by 346 to 14,033 in 2010 as compared with 13,687 in 2009, related costs decreased due to lower labor cost per head, particularly from our knowledge processing solutions business.

Asset impairment increased by Php965 million, or 1,820%, to Php1,018 million primarily due to impairment of goodwill and other intangible assets in SPi related to its investment in CyMed.

Rent expenses decreased by Php41 million, or 8%, to Php445 million primarily due to the expiration of several leases and closure of several offices of knowledge processing solutions business partly offset by higher office building and site rental charges by the customer relationship management business.

Professional and other contracted services decreased by Php87 million, or 17%, to Php427 million primarily due to lower contracted service fees, management fees, legal fees and other professional fees incurred by our knowledge processing solutions business.

Repairs and maintenance expenses decreased by Php4 million, or 1%, to Php404 million primarily due to lower purchases of low-value softwares of our knowledge processing business, janitorial services and a decrease in buildings repairs and maintenance costs, partially offset by higher office and site electricity charges, site facilities repairs and maintenance costs, and janitorial services of our customer relationship management business.

Depreciation and amortization charges decreased by Php52 million, or 12%, to Php396 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions and customer relationship management businesses on account of fully depreciated assets and lower capital expenditures.

Communication, training and travel expenses decreased by Php54 million, or 14%, to Php335 million primarily due to lower local and foreign training and travel expenses, courier charges and communications charges incurred by our customer relationship management and knowledge processing solutions businesses.

Amortization of intangible assets increased by Php4 million, or 2%, to Php225 million due to intangible assets recognized in relation to the acquisition of Laguna Medical.

Taxes and licenses decreased by Php1 million, or 2%, to Php63 million primarily due to lower business-related taxes.

Insurance and security services increased by Php8 million, or 16%, to Php59 million primarily due to higher security services and insurance premiums.

Selling and promotion expenses decreased by Php4 million, or 9%, to Php40 million mainly due to a decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Other expenses decreased by Php11 million, or 7%, to Php147 million mainly due to lower various business and BPO operational-related costs.

### ***Other Income (Expenses)***

The following table summarizes the breakdown of our total BPO-related other income (expenses) for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Interest income	Php20	Php18	Php2	11
Gains on derivative financial instruments – net	–	4	(4)	(100)
Foreign exchange gains (losses) – net	(43)	11	(54)	(491)
Financing costs – net	(168)	(163)	(5)	3
Others	234	(368)	602	164
Total	Php43	(Php498)	Php541	109

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview".

Our BPO business' other income amounted to Php43 million in 2010, a change of Php541 million, or 109%, as against other expenses of Php498 million in 2009 primarily due to the combined effects of the following: (i) an increase in other income by Php602 million mainly due to an adjustment in the fair value of the contingent liability of SPi America Holdings from the acquisition of Laguna Medical and an insurance claim received in 2010 partly offset by the de-recognition of liabilities in 2009; (ii) an increase in interest income of Php2 million due to increase in short-term placements and bank deposits; (iii) an increase in financing costs – net by Php5 million due to higher accretion on contingent liabilities from our knowledge processing solutions business; (iv) gain on derivative financial instruments by Php4 million mainly due to the expiration of derivative contracts of Parlance

and SPi in December 2009; and (v) net foreign exchange losses of Php43 million in 2010 as compared with net foreign exchange gains of Php11 million in 2009 primarily due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2010.

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

Benefit from income tax of Php64 million in 2010 as against provision for income tax of Php2 million in 2009 primarily due to the corresponding deferred tax benefit from the amortization of intangible assets.

### ***Net Loss***

As a result of the foregoing, our BPO business registered a net loss of Php262 million, an increase of Php14 million, or 6%, from Php248 million in 2009.

### ***EBITDA***

As a result of the foregoing, our BPO business' EBITDA increased by Php320 million, or 34%, to Php1,270 million in 2010 from Php950 million in 2009.

### ***Core Income***

Our BPO business' core income amounted to Php765 million in 2010, an increase of Php995 million, or 433%, as against a negative core income of Php230 million in 2009 mainly as a result of a decrease in cash expenses and a net benefit from income tax, partially offset by a decrease in BPO revenues.

### ***Others***

#### ***Expenses***

Expenses associated with our other business totaled Php19 million in 2010 primarily due to PCEV's expenses related to professional and other contracted services, taxes and licenses, communication, training and travel, and other operating expenses.

#### ***Other Income***

The following table summarizes the breakdown of other income for other services for the years ended December 31, 2010 and 2009:

	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,229	Php398	Php831	209
Foreign exchange losses – net	(23)	(129)	106	(82)
Financing costs	(2)	(8)	6	(75)
Interest income	147	504	(357)	(71)
Gains on derivative financial instruments – net	–	1,170	(1,170)	(100)
Others	20	27	(7)	(26)
Total	Php1,371	Php1,962	(Php591)	(30)

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 1. "Description of Business – Overview".

Other income associated with other services decreased by Php591 million, or 30%, to Php1,371 million in 2010 from Php1,962 million in 2009 primarily due to the combined effects of the following: (i) higher equity share in net earnings by Php831 million primarily due to the increase in PCEV's direct and indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; (ii) a net decrease in foreign exchange losses by Php106 million; (iii) lower financing costs by Php6 million; (iv) a decrease in interest income by Php357 million mainly due to the interest income recognized in 2009 on the exchangeable note purchased by PCEV; (v) lower net gains on derivative financial instruments by Php1,170 million mainly due to the gain in 2009 in the mark-to-market valuation relating to the

derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV; and (vi) a decrease in other income by Php7 million.

Meralco's reported and core income amounted to Php9,685 million and Php12,155 million for the year ended December 31, 2010, respectively, as compared with Php6,005 million and Php7,003 million for the year ended December 31, 2009, respectively. These results reflect the higher volume of energy sold resulting from unusually high temperatures, higher consumption brought about by election spending in the first half of 2010 and of the upturn in business expansions within the franchise area throughout the year. In addition, the results were boosted by the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission. PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's December 31, 2010 results of operations, amounted to Php1,229 million and Php1,928 million, respectively, in 2010. PCEV's share in Meralco's reported and core income for the period from July 14, 2009 to December 31, 2009 amounted to Php398 million and Php534 million, respectively.

### ***Net Income***

As a result of the foregoing, other services registered a net income of Php1,351 million, a decrease of Php553 million, or 29%, in 2010 from Php1,904 million in 2009.

### ***EBITDA***

As a result of the foregoing, EBITDA from other services amounted to a negative Php19 million in 2010.

### ***Core Income***

Core income from other services amounted to Php2,066 million in 2010, an increase of Php755 million, or 58%, from Php1,311 million in 2009 mainly as a result of a decrease in provision for income tax, partially offset by lower other income and higher expenses associated with our other services.

### **Plans and Prospects**

We are the largest and most diversified telecommunications company in the Philippines. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to attain undisputed market leadership across all metrics. We plan to adopt an integrated approach to our customers with the delivery of a superior customer experience. We will reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services. In addition, we intend to align the deployment of our fixed line and wireless platforms and technologies such that these initiatives dovetail and result in cost efficiencies. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

Our 2012 budget for consolidated capital expenditures is approximately Php38.1 billion, of which approximately Php18 billion is budgeted to be spent by Smart, approximately Php13 billion is budgeted to be spent by PLDT, approximately Php6 billion is budgeted to be spent by Digitel and the balance represents the budgeted capital spending of our other subsidiaries. Smart's capital spending is focused on expanding and upgrading its transmission network from the backbone up to last-mile facilities to meet increased demand for cellular and broadband services in a highly-competitive playing field and as part of its network modernization program. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. We believe the aggressive rollout, expansion and modernization programs will prepare Smart for increased demand in broadband business. Digitel's capital spending is intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The higher than usual level of capital expenditures stems from the acceleration of our technology roadmap, given current market dynamics and the anticipated surge in demand for data. The budget also includes provisions for the modernization of our networks, adapting to the more voice- and data-centric environment.

Our capital expenditure projects can be classified as follows:

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

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

### Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2011, 2010 and 2009 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2011 and 2010:

	2011	2010	2009
	(in millions)		
<b>Cash Flows</b>			
Net cash provided by operating activities	Php79,209	Php77,260	Php74,386
Net cash used in investing activities	29,712	23,283	49,132
<i>Capital expenditures</i>	<i>31,207</i>	<i>28,766</i>	<i>28,069</i>
Net cash used in financing activities	40,204	55,322	20,293
Net increase (decrease) in cash and cash equivalents	9,379	(1,641)	4,635
<b>Capitalization</b>			
(in millions)			
Interest-bearing financial liabilities:			
Long-term financial liabilities:			
Long-term debt	Php91,273	Php75,879	
Obligations under finance lease	7	9	
	<u>91,280</u>	<u>75,888</u>	
Current portion of interest-bearing financial liabilities:			
Notes payable	3,109	–	
Long-term debt maturing within one year	22,893	13,767	
Obligations under finance lease maturing within one year	7	34	
	<u>26,009</u>	<u>13,801</u>	
Total interest-bearing financial liabilities	117,289	89,689	
Total equity attributable to equity holders of PLDT	<u>151,833</u>	<u>97,069</u>	
	<u>Php269,122</u>	<u>Php186,758</u>	
<b>Other Selected Financial Data</b>			
Total assets	Php395,646	Php277,815	
Property, plant and equipment – net	197,731	163,184	
Cash and cash equivalents	46,057	36,678	
Short-term investments	558	669	

Our consolidated cash and cash equivalents and short-term investments totaled Php46,615 million as at December 31, 2011. Principal sources of consolidated cash and cash equivalents in 2011 were cash flows from operating activities amounting to Php79,209 million, proceeds from avilment of long-term debt and notes payable of Php19,600 million, net proceeds from disposal of investment in associates of Php14,981 million, interest received of Php1,359 million, dividends received of Php520 million and net cash acquired from purchase of investments of Php1,169 million. These funds were used principally for: (1) dividend payments of Php41,598 million; (2) capital outlays of Php31,207 million; (3) payments for purchase of available-for-sale financial assets of Php15,179 million; (4) debt principal and interest payments of Php15,056 million and Php5,325 million, respectively; (5) settlement of contingent consideration arising from business acquisitions of Php1,910 million; and (6) settlements of derivative financial instruments of Php632 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php37,347 million as at December 31, 2010. Principal sources of consolidated cash and cash equivalents were cash flows from operating activities amounting to Php77,260 million, proceeds from avilment of long-term debt of Php7,246 million, net proceeds from maturity of short-term investments of Php3,142 million and interest received of Php1,165 million. These funds were used principally for: (1) dividend payments of Php41,080 million; (2) capital outlays of



Php28,766 million; (3) total debt principal and interest payments of Php14,645 million and Php5,580 million, respectively; and (4) settlement of derivative financial instruments of Php1,095 million.

### **Operating Activities**

Our consolidated net cash flows from operating activities increased by Php1,949 million, or 3%, to Php79,209 million in 2011, including Digitel Group's cash flows from operating activities for the period from October 26, 2011 to December 31, 2011 of Php1,785 million, which was increased from Php77,260 million in 2010, primarily due to the LTIP settlement in March 2010, which resulted in a reduction in our cash flows from operating activities in 2010, as well as due to a higher collection of receivables, which was partially offset by higher settlement of various payables in 2011.

Our consolidated net cash flows from operating activities increased by Php2,874 million, or 4%, to Php77,260 million in 2010 from Php74,386 million in 2009 primarily due to lower pension contribution and lower level of settlement of various payables.

Cash flows provided by operating activities of our fixed line business increased by Php15,912 million, or 81%, to Php35,475 million in 2011 from Php19,563 million in 2010, primarily due to the LTIP settlement in March 2010, and higher collection of receivables mainly due to the collection of ePLDT's receivable from SPi as a result of the transfer of SPi and SPi CRM, partially offset by higher level of settlement of accounts payable and other liabilities. Cash flows from operating activities of our wireless business decreased by Php678 million to Php54,971 million in 2011 from Php55,649 million in 2010, primarily due to lower operating income and higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of outstanding receivables. Cash flows used in operating activities of our BPO business in 2011 amounted to Php11,213 million as against cash flows provided by operating activities amounting to Php1,850 million in 2010, primarily due to a higher level of settlement of accounts payable and other liabilities mainly due to the settlement of SPi's payable to ePLDT as a result of the transfer of SPi and SPi CRM, partially offset by higher level of collection of outstanding receivables.

Cash flows from operating activities of our wireless business amounted to Php55,649 million in 2010, an increase of Php23,481 million, or 73%, as compared with Php32,168 million in 2009 due to higher operating income, higher level of outstanding payables and higher collection of receivables mainly from dealers, carriers and subscribers, partially offset by LTIP payout in 2010. Cash flows from operating activities of our fixed line business amounted to Php19,563 million in 2010, an increase of Php1,368 million, or 8%, as compared with Php18,195 million in 2009 primarily due to higher collection of accounts receivables and lower pension contributions made to the beneficial trust fund, partially offset by LTIP payout in 2010 and higher level of settlement of accounts payable and other current liabilities in 2010. Cash flows from operating activities of our BPO business increased by Php345 million, or 23%, to Php1,850 million in 2010 from Php1,505 million in 2009 mainly due to lower working capital requirements in 2010.

### **Investing Activities**

Consolidated net cash used in investing activities amounted to Php29,712 million in 2011, including the Digitel Group's cash flows from investing activities for the period from October 26, 2011 to December 31, 2011 of Php1,029 million, an increase of Php6,429 million, or 28%, from Php23,283 million in 2010, primarily due to the combined effects of the following: (1) the higher payments for purchase of available-for-sale financial assets by Php15,177 million; (2) the lower net proceeds from the maturity of short-term investments by Php3,073 million; (3) the increase in capital expenditures by Php2,441 million; (4) the payment for contingent consideration arising from business acquisitions by Php1,910 million; (5) the lower proceeds from disposal of property, plant and equipment of Php336 million; (6) the higher interest received by Php194 million; (7) net cash utilized for the purchase of an investment of Php1,357 million; and (8) the net proceeds from disposal of investments of Php14,981 million.

Consolidated net cash used in investing activities amounted to Php23,283 million in 2010, a decrease of Php25,849 million, or 53%, as compared with Php49,132 million in 2009 primarily due to the combined effects of the following: (1) lower purchase of investment in subsidiaries and associates by Php26,858 million mainly due to PCEV's acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer of PCEV's non-controlling shareholders of Php6,618 million in 2009; (2) higher net proceeds from the maturity of short-term investments by Php252 million; (3) higher dividends received in 2010 by Php174 million; (4) increase in capital expenditures by Php697 million in 2010; (5) lower net proceeds of investments in debt securities by Php427 million; (6) increase in advances and refundable deposits by Php230 million; and (7) lower interest

received by Php187 million.

Our consolidated capital expenditures in 2011 totaled Php31,207 million, an increase of Php2,441 million, or 8%, as compared with Php28,766 million in 2010, primarily due to an increase in PLDT's capital spending and inclusion of the Digitel Group's capital spending of Php839 million for the period from October 26, 2011 to December 31, 2011. PLDT's capital spending of Php12,853 million in 2011 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php16,743 million in 2011 was used primarily to modernize and expand its 2G/3G cellular network and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. Digitel's capital spending of Php839 million for the period from October 26, 2011 to December 31, 2011 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. SPi and its subsidiaries' capital spending of Php400 million in 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php372 million represented other subsidiaries' capital spending.

Our consolidated capital expenditures totaled Php28,766 million in 2010, an increase of Php697 million, or 2%, as compared with Php28,069 million in 2009 primarily due to increase in Smart's capital spending. Smart's capital spending of Php16,944 million in 2010 was used primarily to build a secondary network for unlimited services, to expand its 3G broadband network, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,874 million in 2010 was principally used to finance the expansion and upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. BPO's capital spending of Php468 million in 2010 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

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

On July 14, 2009, PCEV completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18,070 million for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note's discount of Php116 million. See Item 1. "Description of Business – Recent Developments" and *Note 10 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 7 for further information on the acquisition of Meralco shares.

In view of the change in PCEV's business direction upon the acquisition of Meralco shares, Smart's Board of Directors approved a tender offer to acquire the approximately 840 million shares from PCEV's non-controlling shareholders (representing approximately 7.19% of the outstanding shares of PCEV) at Php8.50 per share payable entirely in cash on August 12, 2009. Approximately 93% of PCEV's non-controlling shares tendered and Smart paid Php6,618 million to tendering shareholders on August 12, 2009, thereby increasing its ownership in PCEV to approximately 99.5% of PCEV's outstanding common stock. Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under "Equity" in our consolidated statements of financial position. See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations* to the accompanying consolidated financial statements in Item 7 for further discussion.

### **Financing Activities**

On a consolidated basis, net cash used in financing activities amounted to Php40,204 million in 2011, including the Digitel Group's net cash used in financing activities for the period from October 26, 2011 to December 31, 2011 of Php793 million, a decrease of Php15,118 million, or 27%, as compared with Php55,322 million in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php12,354 million; (2) higher net avilment of capital expenditures under long-term financing by Php2,805 million; (3) lower settlements of derivative financial

instruments by Php463 million; (4) lower interest payments by Php255 million; (5) net increase in repayments of long-term debt and notes payable by Php411 million; and (6) higher cash dividend payments by Php518 million.

### *Debt Financing*

Proceeds from availment of long-term debt and notes payable for the year ended December 31, 2011 were Php17,464 million and Php2,136 million, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements maturing loan obligations, and the inclusion of the Digitel Group's availment of long-term debt and notes payable for the period from October 26, 2011 to December 31, 2011 amounted to Php1,160 million and Php432 million, respectively. Payments of principal and interest on our total debt amounted to Php15,056 million and Php5,325 million, respectively, in 2011, including the Digitel Group's payments of principal and interest of Php813 million and Php199 million, respectively.

Our consolidated long-term debt increased by Php24,520 million, or 27%, to Php114,166 million as at December 31, 2011 from Php89,646 million as at December 31, 2010, largely due to Digitel's consolidated debt, excluding convertible bonds held by PLDT, as at December 31, 2011 of Php21,345 million, drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the depreciation of the Philippine peso relative to the U.S. dollar to Php43.92 as at December 31, 2011 from Php43.81 as at December 31, 2010. The long-term debt levels of PLDT increased by 14% to Php55,707 million, while that of Smart decreased by 9% to Php37,066 million as at December 31, 2011 as compared with December 31, 2010.

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011. Tranche B amounting to Php1,000 million was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The aggregate amount of Php2,000 million remained outstanding as at December 31, 2011. The facility is payable in full five years from the respective issue dates.

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011 and remained outstanding as at December 31, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at December 31, 2011.

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011 and remained outstanding as at December 31, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php300 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The amount of Php300 million was fully drawn on April 28, 2011 and remained outstanding as at December 31, 2011.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php500 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at December 31, 2011.

On June 6, 2011, Smart signed a US\$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender. The loan is payable over five years in eight equal semi-annual installments with the first installment due on the eighteenth month from signing date. No availment has been made on this facility as at December 31, 2011.

The amount of US\$41 million, net of debt discount, remained outstanding as at March 22, 2012.

On June 10, 2011, Smart signed a US\$49 million five-year term loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as the original lender, arranger and facility agent. On July 5, 2011, Nordea Bank assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No availment has been made on this facility as at December 31, 2011. The amount of US\$4.3 million, net of unamortized debt discount, was drawn on March 13, 2012 and remained outstanding as at March 22, 2012.

On August 19, 2011, Smart signed a US\$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with Finnish Export Credit, Plc., a lender on Record. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., the Hong Kong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at December 31, 2011. The amount of US\$45 million, net of debt discount, remained outstanding as at March 22, 2012.

On November 8, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A 5-year notes amounting to Php2,795 million, Series B 7-year notes amounting to Php230 million and Series C 10-year notes amounting to Php1,975 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at December 31, 2011.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the facility agent. Proceeds from the facility will be used to finance capital expenditures and/or to refinance PLDT's existing obligations which were also used to finance capital expenditures for network expansion and improvement programs. The facility is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the facility agreement. No drawdown has been made under this facility as at March 22, 2012.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank N.A. Manila to refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. This loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date. No drawdown has been made under this agreement as at March 22, 2012.

On March 19, 2012, Smart issued Php5,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten year notes amounting to Php3,590 million. Proceeds from the issuance of these notes have been used primarily for Smart's debt refinancing and capital expenditures. The amount of Php5,500 million remained outstanding as at March 22, 2012.

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. The facility is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity. No drawdown has been made under this agreement as at March 22, 2012.

As at March 22, 2012, we have a total consolidated unavailed facility of US\$242.5 million and Php2,000 million from our US dollar and Philippine peso loans, respectively.

As a result of the acquisition of Digitel, as discussed in Other Information, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGS, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGS. These loans and guarantees contained certain representations and covenants applicable to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGS by PLDT as guarantor under these loans. As at December 31, 2011, the outstanding balance of DMPI loans covered by PLDT guarantees is Php18,696 million. There are no outstanding Digitel loans covered by PLDT guarantees as at December 31, 2011.

Approximately Php72,980 million principal amount of our consolidated outstanding long-term debt as at December 31, 2011 is scheduled to mature over the period from 2012 to 2015. Of this amount, Php32,460 million is attributable to Smart, Php27,736 million to PLDT, Php12,734 million to Digital and the remainder to ePLDT's subsidiaries.

For further details on our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying consolidated financial statements in Item 7.

#### *Debt Covenants*

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

See *Note 20 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying consolidated financial statements in Item 7 for a more detailed discussion of our debt covenants.

#### *Financing Requirements*

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

Consolidated cash dividend payments in 2011 amounted to Php41,598 million as compared with Php41,080 million paid to shareholders in 2010.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the years ended December 31, 2010 and 2011:

Earnings	Date		Amount		Total Declared (in millions)
	Approved	Record	Payable	Per share	
<b>2010</b>					
Common					
Regular Dividend	August 3, 2010	August 19, 2010	September 21, 2010	Php78.00	Php14,570
	March 1, 2011	March 16, 2011	April 19, 2011	78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
				222.00	41,463
Preferred					
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	409
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	Various	Various	Various	-	49
					458
					<b>Php41,921</b>
<b>2011</b>					
Common					
Regular Dividend	August 2, 2011	August 31, 2011	September 27, 2011	78.00	Php14,567
	March 6, 2012	March 20, 2012	April 20, 2012	63.00	13,635
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,376
				189.00	38,578
Preferred					
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	408
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	Various	Various	Various	-	49
					457
					<b>Php39,035</b>

<sup>(1)</sup> Dividends are declared based on total amount paid up.

See Item 5. “Market for Registrant’s Common Equity and Related Stockholder Matters – Dividends” and Note 19 – Equity to the accompanying consolidated financial statements in Item 7 for a detailed discussion of our dividend payments.

### Credit Ratings

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

PLDT’s current credit ratings are as follows:

Rating Agency	Credit Rating	Outlook
Standard & Poor’s Ratings Services, or S&P	Long-term Foreign Issuer Credit ASEAN regional scale	BB+ axBBB+
Moody’s Investor Service, or Moody’s	Foreign Currency Senior Unsecured Debt Rating Local Currency Issuer Rating	Baaa3 Baa2
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating Long-term Local Currency Issuer Default Rating National Long-term Rating Foreign senior unsecured rating	BBB- A- AAA(ph1) BBB-
		Positive Stable Stable Stable

On December 16, 2011, S&P revised the outlook for PLDT to “positive” from “stable” and affirmed our long-term foreign issuer credit rating at “BB+”. On the S&P Asean regional scale, PLDT’s rating stood at “axBBB+”.

On November 30, 2011, Fitch affirmed PLDT's long-term foreign and local currency issuer default ratings at "BBB-" and "A-", respectively. These ratings are considered "investment grade." Also, our national long-term rating has been affirmed at "AAA(ph1), as well as our global bonds and senior notes at "BBB-". The outlook is stable. The ratings reflect PLDT's improved market position in the Philippine telecommunications industry following its successful acquisition of Digitel in an all-equity deal. The acquisition complemented PLDT's leadership position across the wireless, fixed line and broadband segments. The stable outlook recognizes PLDT's ability to sustain its leading market position and maintain our strong financial profile, despite increasing shareholder distributions.

On June 15, 2011, Moody's upgraded PLDT's foreign currency bond rating to Baa3 from Ba1, while the local currency issuer rating was affirmed at Baa2. Both ratings are considered "investment grade." The outlook in both ratings is stable. The rating upgrade of the foreign currency bond rating follows Moody's upgrade of the Philippine government's long-term foreign currency rating to Ba2 and the foreign currency country ceiling to Baa3.

#### *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*

Through our Subscriber Investment Plan, or SIP, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise approximately Php2 million and Php3 million in 2011 and 2010, respectively.

### **Contractual Obligations and Commercial Commitments**

#### *Contractual Obligations*

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2011 and 2010, see *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 7.

#### *Commercial Commitments*

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php913 million and Php1,145 million as at December 31, 2011 and 2010, respectively. These commitments will expire within one year.

### **Quantitative and Qualitative Disclosures about Market Risks**

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

For further discussions of these risks, see *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 7.

### **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 2011 and 2010 was 4.8% and 3.8%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

## **Risk and Uncertainties**

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

### **Risks Relating to Us**

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

In 1993, the Philippine government liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. At present, following the acquisition of Digitel by PLDT, the number of major players in the industry has been reduced to three major LECs, 11 international gateway facility providers and three major cellular providers in the country. Many entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technology and funding support, as well as service innovations and marketing strategies. We cannot assure you that the number of providers of telecommunication services will not increase in the future or that competition for customers will not cause our cellular and fixed line subscribers to switch to other operators, or otherwise cause us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

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

*The cellular telecommunications industry may not continue to grow.*

The majority of our total revenues are currently derived from the provision of cellular services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry. The cellular penetration rate in the country, however, has already reached an estimated 97%, counting for multiple SIM card ownership, thus the industry may well be considered mature. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer tastes and preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services or otherwise cause Philippine cellular telecommunications industry to stop growing or reduce the rate of its growth, could materially harm our business and prospects.



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

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

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

- increases in competition from other domestic and international telecommunications providers;
- advances in technology;
- the growing popularity of alternative providers offering “over-the-top” services like social networking, instant messaging, internet telephony, also known as VoIP services; or
- alternative providers of broadband capacity.

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

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

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and CPCNs, which have been granted by the NTC and will expire between now and 2028. See Item 1. “Description of Business – Licenses and Regulations” for a description of our licenses. Some of PLDT’s CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC’s decisions on these applications. Because PLDT filed the applications for extension on a timely basis, we expect that these applications will be granted. However, we cannot assure you that the NTC will grant these applications. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart’s franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted. On June 4, 2008, the NTC also granted DMPI a CPCN to operate and maintain a nationwide CMTS, for a period coterminous with the life of its existing franchise which is valid until December 11, 2027, 25 years after the date of its issuance.

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

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that the PLDT Group will not be subject to new and/or additional taxes and that the PLDT Group would be able to impose additional charges or fees on its customers to compensate for the imposition of such taxes. There are bills in the 15th Philippine Congress that propose to tax telecommunications services. HB No. 138 proposes to impose a 7% Computer Education Tax on receipts from cellular phone calls to be borne by cellular phone companies that will be used in the creation of a special computer literacy education fund for public schools. HB No. 976 proposes to impose a gross receipts tax on cellular phone companies to finance the computer literacy program of public schools. HB Nos. 1030 and 1279 propose to require cellular phone companies to set up local assembly and packaging plants for the manufacture of cellular phone units for the purpose of taxation. For more details on relevant proposed regulations affecting our business, see Item 1. "Description of Business – Licenses and Regulations – Material Effects of Regulation on our Business". If any of these bills are enacted into law, such legislation could materially reduce our profitability and have a material adverse effect on our results of operations and financial condition. We cannot assure you that the PLDT Group will be able to impose additional charges or fees on its customers to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

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

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

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

On April 14, 2009, the NTC released implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

For example, on July 3, 2009, NTC issued Memorandum Circular No. 03-07-2009 promulgating an extension of expiration of prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

In addition, on July 7, 2009, the NTC issued Memorandum Circular No. 04-07-2009, further amending the Memorandum Circular No. 03-03-2005A (Rules and Regulation on Broadcast Messaging), which prohibits content and/or information providers from initiating push messages. Memorandum Circular No. 04-07-2009 further provides that broadcasts, which can include product campaigns, and requests for services must be initiated by the subscribers and not forced upon them by public telecommunications entities and/or content providers. It further requires that a notification be sent to subscribers to give subscribers an option whether to continue with the availed service.

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

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

This SMP issue, as well as the consultative documents thereon, were again revived at the height of the hearings on the acquisition of the Digitel Group. The PLDT Group, in response to a letter issued by the NTC Commissioner on the matter, reiterated its comments on the consultative documents. No further action was taken by the NTC on the matter following the receipt of PLDT's reply to the NTC Commissioner's letter. In connection with this and also at the height of the hearings on the acquisition of the Digitel Group, the President of the Philippines issued E.O. No. 45 on June 9, 2011 designating the DOJ as the Competition Authority and established the Office for Competition under it. As Competition Authority, the DOJ is tasked to investigate violations of competition laws and prosecute violators; supervise competition in markets by enforcing such laws; as well as prepare, publish and disseminate studies and reports on competition to inform and guide industry and consumers. Among others it will target monopolies, cartels and other combinations in restraint of trade. To date however, the DOJ has yet to promulgate guidelines on how it will exercise its powers under the said EO.

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

Further, last December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge to/from LEC and to/from CMTS to Php2.50 per minute, from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, making it in parity with each other. PLDT and Smart separately filed their respective Motions for Reconsideration alleging among others that interconnection, including the rates thereof, should be by law a product of bilateral negotiations between the parties and the Decision is unconstitutional as it is an invalid exercise by the NTC of its quasi-legislative powers and violates the constitutional guarantee against non-impairment of contracts.

Due to the regulatory power of the NTC, as set forth above, we cannot assure you that the NTC will not impose changes to the current regulatory framework in the future, which could lead to increased competition or

negatively affect the rates we can charge for our services. Any of these events could have a material adverse effect on our business, results of operations and prospects.

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

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

Although the position taken by Smart and DMPI is that such provision is merely directory and that the policy underlying the requirement for telecommunication entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000 and DTPI which is now majority-owned by PLDT, owned 10% equity interest in DMPI, since PLDT was then and continues to be a publicly listed company, there can be no assurance that the Philippine Congress will agree with such position. In September 2004, Senate Bill No. 1675 was filed seeking to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. However, we cannot assure you that such bill will be enacted or that the Philippine Congress will not revoke the franchise of Smart and DMPI or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart and DMPI for the revocation of their respective franchises for failure to comply with the provision under R.A. 7925 on the public offering of shares, the occurrence of any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

As part of the NTC's decision to grant its consent to our acquisition of the Digitel Group, we agreed to divest ourselves of the frequency spectrum and associated franchises, licenses and permits held by CURE. Under the terms of the order issued by the NTC on October 26, 2011, (i) CURE will sell its *Red Mobile* business to Smart; and (ii) Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, certain frequency spectrum and related permits. For a detailed description of the divestment of CURE, see Item 1. "Description of Business — Recent Development — Divestment of CURE."

As at March 22, 2012, CURE is in the process of completing the sale of its *Red Mobile* business, primarily consisting of subscriber base and fixed assets, to Smart in line with the commitment made by PLDT in the divestment plan presented to the NTC. However, we cannot assure you that we will be able to effect the divestment of CURE within the time or in a manner contemplated under the order issued by the NTC. If we fail to effect the divestment of CURE in accordance with the terms of, or in a manner contemplated under the NTC's approval of our acquisition of Digitel, the NTC may revoke its approval or any relevant franchises, licenses or permits held by Smart, any of which could significantly disrupt our operations and have a material adverse effect on our business, results of operations, financial condition and prospects.

*Red Mobile* introduced its unlimited voice and SMS offering utilizing a secondary network powered by Smart. *Red Mobile Unlimited* offers unlimited Red-to-Red call and text, and unlimited Red-to-Red text packages, as well as unlimited call and text to all Smart subscribers.

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

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

In addition, we now face growing competition not just from other telecommunications operators, but also from the so-called “over-the-top” service providers that offer social networking, instant messaging and VoIP services.

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

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

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

- shortages of equipment, materials and labor;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

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

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

We depend, to a significant degree, on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

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

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

Over the years, our continued dependence on the latest digital technologies in conducting our operations exposes our business to risks associated with cyber incidents. These cyber incidents may range from unintentional events to deliberate attacks. These may be carried out by parties with the intention to bring about something as simple as plain disruption of our operations to something as destructive as breaching our network security. Some network attacks can cause our telecommunications services of internal systems to be unavailable. Others can disrupt our business communication, such as SPAM. Moreover, others can cause the disclosure of confidential information, such as brute force attack.

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

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

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php31,207 million and Php28,766 million in 2011 and 2010, respectively. Our 2012 budget for consolidated capital expenditures is approximately Php38.1 billion, of which approximately Php13 billion is budgeted to be spent by PLDT, approximately Php18 billion is budgeted to be spent by Smart; approximately Php6 billion is budgeted to be spent by Digitel; and the balance represents the budgeted capital spending of our other subsidiaries. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. Smart's capital spending is focused on expanding and upgrading its transmission network from the backbone up to last mile facilities to meet anticipated increased demand for cellular and broadband services in a highly-competitive playing field, including improvement of quality and subscriber experience, expansion of capacity and its accelerated network modernization program in order to achieve a greater operational and cost efficiencies. Digitel's capital spending is intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas.

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

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

As at December 31, 2011, we had consolidated total indebtedness of Php117,275 million, or US\$2,670 million, and a consolidated ratio of debt to equity of 0.8 times, calculated as total debt on a consolidated basis divided by total equity attributable to equity holders of PLDT. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of PFRS on a consolidated and non-consolidated basis, and limit our ability to incur indebtedness. For a description of some of these covenants, see Item 6. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financing Activities – Debt Covenants.”

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

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Approximately 47% of our total consolidated debts were denominated in foreign currencies as at December 31, 2011, principally in U.S. dollars, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso.

We have maintained compliance with all of our financial ratios and covenants, as measured under PFRS, under our loan agreements and other debt instruments. However, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants or unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing could result in a declaration of default and acceleration of maturities of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

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

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

A substantial portion of our indebtedness, related interest expenses, our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, whereas most of our revenues are denominated in Philippine pesos. As at December 31, 2011, approximately 47% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 37% of our total consolidated indebtedness was unhedged.

A depreciation of the Philippine peso against the U.S. dollar would increase the amount of our U.S. dollar-denominated debt obligations and operating and interest expenses in Philippine peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in Philippine peso terms. Moreover, a depreciation of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign

exchange losses, which could materially and adversely affect our results of operations. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed on us by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments, which were designated as non-hedged items.

On the other hand, approximately 30% and 17% of the PLDT Group's consolidated service revenues and expenses, respectively, are either denominated in U.S. dollars and/or are linked to the U.S. dollar. In this respect, an appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreases our revenues and expenses, and consequently, our cash flow from operations in terms of Philippine peso.

The Philippine peso has been subject to significant fluctuations in recent years. From 2003 to 2004, the Philippine peso depreciated from a high of Php52.02 on May 8, 2003 to a low of Php56.44 on October 14, 2004. While the Philippine peso appreciated in 2005, 2006 and 2007, it depreciated in 2008 to a low of Php49.98 and closed at Php47.65 as at December 31, 2008. In 2009 and 2010, the Philippine peso again appreciated to a high of Php42.52 and closed at Php43.81 as at December 31, 2010. In 2011, the Philippine peso further appreciated to a high of Php41.96 but closed the year at Php43.92. However, we cannot assure you that the Philippine peso will not depreciate and be subject to significant fluctuations going forward, due to a range of factors, including:

- a. political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- b. global economic and financial trends;
- c. the volatility of regional currencies, particularly the Japanese yen;
- d. any interest rate increases by the Federal Reserve Bank of the United States; and
- e. changes in the value of the U.S. dollar relative to Philippine peso, resulting from events such as higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

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

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

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

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



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

As part of our growth strategy, we may make acquisitions and investments in companies or businesses. On October 26, 2011, we acquired a controlling interest in the Digitel Group, another major LEC and wireless operator in the Philippines. The success of our acquisitions and investments depends on a number of factors, such as:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

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

***A significant number of PLDT's shares are held by three shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT.***

The First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at February 29, 2012, taking into account shares purchased from JGS pursuant to an option agreement in connection with the Digitel acquisition. See Item 1. "Description of Business – Historical Background and Development" for further information. This is the largest block of PLDT's common stock that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at February 29, 2012, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock, taking into account shares purchased from JGS pursuant to an option agreement in connection with the Digitel acquisition. See Item 1. "Description of Business — Historical Background and Development" for further discussion. First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. See Item 11. "Security Ownership of Certain Beneficial Owners, Directors and Key Officers" for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US\$50 million;
- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US\$25 million in the case of all investments to any existing investees and US\$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis;
- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US\$10 million in the case of an existing investee and US\$50 million in the case of a new investee;

- issuance of common stock or stock that is convertible into common stock;
- new business activities other than those we currently engage in; and
- merger or consolidation.

Moreover, as a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties and/or, NTT Communications and/or NTT DOCOMO are able to influence our actions and corporate governance, including:

- elections of PLDT's directors; and
- approval of major corporate actions, which require the vote of common stockholders.

Additionally, pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

- NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the board of directors of each of PLDT and Smart;
- PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
- PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
- PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer of Smart's common capital stock by any member of the PLDT Group to any person who is not a member of the PLDT Group.

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

***If a major shareholder sells its interest in PLDT, the transaction may result in an event of default under certain circumstances.***

If First Pacific Group and its Philippine affiliates or NTT Communications sells all or a portion of their equity interest in PLDT, under certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding debt under its US\$250 million 11.375% notes due May 2012. As at December 31, 2011, Php6,403 million in principal amount of PLDT's indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

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

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

with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

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

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

### **Risks Relating to the Philippines**

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

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

For example, impeachment proceedings have been started against the Chief Justice of the Supreme Court of the Philippines. The proceedings have raised concerns about the judicial system in the country.

Moreover, the Philippines, similar to other non-oil producing countries, has been struggling unsuccessfully to keep oil prices from increasing further due to factors beyond the Philippine government's control. The continuing rise in oil prices may have adverse implications on the Philippine economy in the future.

Furthermore, the Philippine economy has experienced periods of slow growth and significant depreciation of the Philippine peso. The Philippine government is also facing a fiscal deficit that the government is aiming to eliminate in the near future by implementing a number of economic reforms.

The fiscal deficit position of the Philippine government have resulted in increased concerns about the political and economic stability of the country. We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the telecommunications and other companies.

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

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

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.

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

***The occurrence of natural catastrophes could materially disrupt our operations.***

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of the ongoing global climate change. We cannot assure you that we are fully capable to deal with these situations and that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes.

**Risks Relating to Our Securities**

***Future authorization and issuance of substantial amounts of a new class of shares with voting rights could result in substantial dilution in voting power to the holders of our common shares and ADSs, and may materially reduce the market price of our common shares and ADSs.***

On July 5, 2011, our board of directors approved the amendments to the Seventh Article of PLDT's Articles of Incorporation, which sets forth a sub-classification of its authorized preferred capital stock into 150 million shares of voting preferred stock and 807.5 million shares of non-voting serial preferred stock. Subject to the approval by the shareholders of PLDT, the voting preferred stock, if authorized and issued in full, would constitute approximately 41% of the enlarged voting power in PLDT. In addition, the shares of voting preferred stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines.

Upon the approval of the amendments by the Philippine SEC, the board of directors may authorize and issue any amount of voting preferred stock, up to 150 million shares, and determine the specific terms, features and limitations of such voting preferred stock. The issuance of voting preferred stock may result in substantial dilution in voting power to the holders of our common shares and ADSs, and the market price of our common shares and ADSs may decline significantly as a result.

**Item 7. Financial Statements**

Our consolidated financial statements (pages F-1 to F-132) and supplementary schedules (pages S-1 to S-9) listed in the accompanying Index to Financial Statements and Supplementary Schedules on page 161 are filed as part of this annual report.

**Item 8. Information on Independent Auditors and Other Related Matters**

**Independent Auditor's Fees and Services**

The following table summarizes the fees paid or accrued for services rendered by our independent auditor for the years ended December 31, 2011 and 2010:

	2011	2010
	(in millions)	
Audit Fees	Php44	Php39
All Other Fees	15	15
<b>Total</b>	<b>Php59</b>	<b>Php54</b>

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

*Audit-Related Fees.* Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2011 and 2010.

*Tax Fees.* We did not have any tax fees for the years ended December 31, 2011 and 2010.

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

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

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

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

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

## **PART III – CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Directors and Officers**

The name, age and period of service, of each of the current directors, including independent directors, of PLDT are as follows:

<b>Name</b>	<b>Age</b>	<b>Period during which individual has served as such</b>
Manuel V. Pangilinan	65	November 24, 1998 to present
Napoleon L. Nazareno	62	November 24, 1998 to present
James L. Go <sup>(1)</sup>	72	November 3, 2011 to present
Helen Y. Dee	67	June 18, 1986 to present
Ray C. Espinosa	55	November 24, 1998 to present
Tatsu Kono <sup>(2)</sup>	59	March 28, 2006 to July 5, 2011
Rev. Fr. Bienvenido F. Nebres, S.J. <sup>(3)</sup>	71	November 24, 1998 to present
Takashi Ooi <sup>(4)</sup>	50	November 6, 2007 to December 6, 2011
Juan B. Santos	73	January 25, 2011 to present
Oscar S. Reyes <sup>(5)</sup>	65	April 5, 2005 to November 3, 2011
Setsuya Kimura <sup>(6)</sup>	54	July 5, 2011 to present
Hideaki Ozaki <sup>(7)</sup>	46	December 6, 2011 to present
Pedro E. Roxas <sup>(3)</sup>	55	March 1, 2001 to present
Alfred V. Ty <sup>(3)</sup>	44	June 13, 2006 to present
Tony Tan Caktiong	59	July 8, 2008 to present
Ma. Lourdes C. Rausa-Chan <sup>(8)</sup>	58	March 29, 2011 to present

<sup>(1)</sup> Elected effective November 3, 2011.

<sup>(2)</sup> Resigned effective July 5, 2011.

<sup>(3)</sup> Independent Director.

<sup>(4)</sup> Resigned effective December 6, 2011.

<sup>(5)</sup> Resigned effective November 3, 2011.

<sup>(6)</sup> Elected effective July 5, 2011.

<sup>(7)</sup> Elected effective December 6, 2011.

<sup>(8)</sup> Elected effective March 29, 2011.

The name, age, position and period of service of the key officers of PLDT as at February 29, 2012 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Period during which individual has served as such</u>
Manuel V. Pangilinan.....	65	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno.....	62	President and Chief Executive Officer	February 19, 2004 to present
Ray C. Espinosa .....	55	President and Chief Executive Officer of Smart Regulatory Affairs and Policies Head	January 2000 to present March 4, 2008 to present
Ernesto R. Alberto.....	50	Executive Vice President Enterprise and International Carrier Business Head Customer Sales and Marketing Head Corporate Business Head	January 1, 2012 to present September 16, 2011 to present February 1, 2008 to September 15, 2011 May 15, 2003 to January 31, 2008
Rene G. Bañez.....	56	Senior Vice President Supply Chain, Asset Protection and Management Head	January 25, 2005 to present January 1, 2008 to present
Anabelle L. Chua .....	51	Chief Governance Officer Senior Vice President Corporate Finance and Treasury Head Treasurer	October 5, 2004 to March 3, 2008 February 26, 2002 to present March 1, 1998 to present February 1, 1999 to present
Jun R. Florencio .....	56	Chief Financial Officer of Smart Senior Vice President Internal Audit and Fraud Risk Management Head	December 1, 2005 to present June 14, 2005 to present February 16, 2006 to present
Menardo G. Jimenez, Jr.....	48	Audit and Assurance Head Senior Vice President Human Resources Head and Business Transformation Office Head Business Transformation Office – Revenue Team Head	September 1, 2000 to February 15, 2006 December 9, 2004 to present August 1, 2010 to present January 1, 2008 to July 2010
George N. Lim.....	59	Retail Business Head Corporate Communications and Public Affairs Head	June 16, 2004 to December 31, 2007 December 1, 2001 to June 15, 2004
Claro Carmelo P. Ramirez .....	51	Senior Vice President Network Services Assurance Head Business Transformation Office – Network Team Head Network Services Head	February 26, 1999 to present October 16, 2010 to present January 1, 2008 to present February 1, 2003 to December 31, 2007
Ma. Lourdes C. Rausa-Chan .....	58	Senior Vice President Corporate Secretary Corporate Affairs and Legal Services Head	July 1, 1999 to present January 1, 2008 to present December 5, 2005 to December 31, 2007 June 16, 2004 to December 4, 2005 February 1, 2003 to June 15, 2004 January 5, 1999 to present November 24, 1998 to present
Alejandro O. Caeg .....	52	Chief Governance Officer Senior Vice President International and Carrier Business Head	March 4, 2008 to present January 1, 2012 to present March 1, 2009 to present
June Cheryl A. Cabal-Revilla .....	38	First Vice President Financial Reporting and Controllership Head Financial Reporting and Planning Head	May 6, 2008 to present November 15, 2006 to present May 1, 2002 to November 15, 2006
Florentino D. Mabasa, Jr. ....	53	First Vice President	February 19, 2004 to present
Emiliano R. Tanchico.....	56	First Vice President	May 8, 2001 to present
Ricardo M. Sison.....	50	First Vice President	February 26, 2002 to present
Miguela F. Villanueva.....	60	First Vice President	January 31, 2003 to present
Cesar M. Enriquez.....	59	First Vice President	February 19, 2004 to present
Alfredo B. Carrera.....	57	First Vice President	February 27, 2006 to present
Leo I. Posadas.....	45	First Vice President	March 6, 2007 to present
Danny Y. Yu.....	50	First Vice President	May 6, 2008 to present
Mario C. Encarnacion .....	57	Vice President	January 25, 2000 to present
Jesus M. Tañedo.....	60	Vice President	January 1, 2001 to present
Ricardo C. Rodriguez.....	53	Vice President	February 26, 2002 to present
Arnel S. Crisostomo .....	53	Vice President	January 31, 2003 to present
Rebecca Jeanine R. de Guzman .....	49	Vice President	March 1, 2003 to present
Emeraldo L. Hernandez.....	54	Vice President	February 19, 2004 to present
Joseph Nelson M. Ladaban .....	47	Vice President	February 19, 2004 to present
Lilibeth F. Pasa.....	53	Vice President	January 25, 2005 to present
Jose Lauro G. Pelayo.....	56	Vice President	January 25, 2005 to present
Genaro C. Sanchez.....	50	Vice President	January 25, 2005 to present

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Period during which individual has served as such</u>
Jose A. Apelo .....	53	Vice President	June 14, 2005 to present
Ma. Josefina T. Gorres .....	48	Vice President	June 14, 2005 to present
Gerardo C. Peña .....	59	Vice President	June 14, 2005 to present
Alejandro C. Fabian .....	63	Vice President	February 27, 2006 to present
Elisa B. Gesalta .....	53	Vice President	February 27, 2006 to present
Ma. Criselda B. Guhit .....	49	Vice President	February 27, 2006 to present
Oliver Carlos G. Odulio .....	41	Vice President	March 6, 2007 to present
Anna Maria A. Sotto .....	53	Vice President	March 6, 2007 to present
Julieta S. Tañeca.....	52	Vice President	March 6, 2007 to present
Melissa V. Vergel de Dios .....	49	Vice President	March 6, 2007 to present
Marco Alejandro T. Borlongan .....	44	Vice President	September 14, 2007 to present
Amihan E. Crooc.....	46	Vice President	September 14, 2007 to present
Katrina L. Abelarde.....	36	Vice President	May 6, 2008 to present
Joseph Homer A. Macapagal .....	42	Vice President	July 16, 2008 to present
Rafael M. Bejar .....	54	Vice President	March 3, 2009 to present
Renato L. Castañeda.....	60	Vice President	March 3, 2009 to present
Juan Victor I. Hernandez.....	38	Vice President	March 3, 2009 to present
Alexander S. Kibanoff.....	48	Vice President	March 3, 2009 to present
Javier C. Lagdameo.....	47	Vice President	March 3, 2009 to present
Fe M. Vidar .....	63	Vice President	March 3, 2009 to present
Alona S. Dingle .....	38	Vice President	March 26, 2010 to present
Gil Samson D. Garcia.....	40	Vice President	March 26, 2010 to present
Luis Ignacio A. Lopa.....	52	Vice President	March 26, 2010 to present
Marven S. Jardiel.....	44	Vice President	March 26, 2010 to present
Victor Y. Tria .....	42	Vice President	March 26, 2010 to present
Margarito G. Dujali, Jr. ....	37	Vice President	August 31, 2010 to present
Patrick S. Tang .....	38	Vice President	August 31, 2010 to present
Albert Mitchell L. Locsin.....	41	Vice President	June 1, 2011 to present

At least three of our directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Pedro E. Roxas and Alfred V. Ty, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and CG Manual pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

The following is a brief description of the business experiences of each of our directors, key officers and advisors for at least the past five years.

**Mr. Manuel V. Pangilinan** has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and Chief Executive Officer from November 1998 to February 2004. He is the Chairman of the Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of Directors of PLDT. He is also a director and the President and Chief Executive Officer of Manila Electric Company (“Meralco”). He also serves as Chairman of Smart Communications, Inc. (“Smart”), Digital Telecommunications Philippines, Inc. (“Digitel”), ePLDT, Inc. (“ePLDT”), SPi Global Holdings, Inc. (“SPi Global”), SPi Technologies, Inc. (“SPi Technologies”), SPi CRM, Inc. (“SPi CRM”), Metro Pacific Investments Corporation, Landco Pacific Corporation, Maynilad Water Services, Inc., Philex Mining Corporation, Manila North Tollways Corporation, Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), Davao Doctors, Inc. and Our Lady of Lourdes Hospital.

Mr. Pangilinan founded First Pacific Company Limited in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as Chief Executive Officer and Managing Director. He also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College, PLDT-Smart Foundation, Inc., the Hongkong Bayanihan Trust and the Philippine Business for Social Progress, the Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. In February 2007, he was named the President of the Samahang Basketbol ng Pilipinas (SBP), a newly formed national sport association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur Boxing Association of the Philippines (ABAP), the governing body of amateur boxers in the country. In 2011, he was appointed as member of the ASEAN Business Advisory Council by the Office of the President of the Philippines.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the President Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Management Man of the Year by the Management Association of the Philippines (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), Honorary Doctorate in Humanities by the Xavier University (2007), and Global Filipino Executive of the Year (Asia CEO Awards 2010). He was also voted as Corporate Executive Officer of the Year (Philippines) and Best Executive (Philippines) at the 2007 and 2008 Best-Managed Companies and Corporate Governance Polls conducted by *Asia Money* and Best Executive (Philippines) at the 2011 *Asia Money* Best Managed Companies Awards.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance & Commerce at the University of Pennsylvania.

**Mr. Napoleon L. Nazareno** has been a director of PLDT since November 24, 1998 and is a member of the Technology Strategy Committee of the Board of Directors of PLDT. He was appointed as President and Chief Executive Officer of PLDT on February 19, 2004 and is concurrently the President and Chief Executive Officer of Smart since January 2000. He also serves as Chairman of several subsidiaries of Smart including PLDT Communications and Energy Ventures, Inc. ("PCEV"), Wolfpac Mobile, Inc., Smart Broadband, Inc. and I-CONTACTS Corporation. His other directorships include Meralco, Digitel, Mabuhay Satellite Corporation where he is also Chairman, President and Chief Executive Officer, ACeS Philippines Cellular Satellite Corporation where he is also the President, PLDT Global Corporation, ePLDT, Inc., SPi Technologies, Inc., SPi CRM Inc., and Philweb Corporation. He is a non-executive director of First Pacific Company Limited.

Mr. Nazareno's business experience spans several countries in over 30 years and his exposure cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last 13 years, telecommunications and information technology. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. In February 2006, he became part of the Private Sector Advisory Board of the Commission on Information and Communications Technology (CITC), under the Office of the President of the Philippines. Mr. Nazareno is also a board member of the GSM Association Worldwide and a director of the Wireless Applications Community (WAC), an international alliance of telecommunications companies. He is also the Chairman of the Board of Trustees and Governors of Asian Institute of Management, member of the Council of Advisors of the DLSU-Graduate School of Business and Philippine-Thailand Business Council, among others. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by *Asia Money*.

Mr. Nazareno received his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France.



**Mr. James L. Go** was appointed as director of PLDT on November 3, 2011. He is a member of the Technology Strategy Committee and Advisor of the Audit Committee of the Board of Directors of PLDT. He is currently the Chairman and Chief Executive Officer of JG Summit Holdings, Inc. (JG Summit), Universal Robina Corporation (URC), Robinsons Land Corporation (RLC), JG Summit Petrochemical Corporation (JGSPC), CFC Corporation (CFC), Robinsons, Inc. and Oriental Petroleum and Minerals Corporation (OPMC). He is also the President and a Trustee of the Gokongwei Brothers Foundation, Inc. (GBFI) and a director of Singapore Land, Ltd. and Marina Center Holdings, Inc. Mr. Go was the Vice Chairman of the Board of Directors of Digitel and also held the positions of President and Chief Executive Officer until October 26, 2011. He received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.

**Ms. Helen Y. Dee** has been a director of PLDT since June 18, 1986. She is the Chairperson of Rizal Commercial Banking Corporation, RCBC Savings Bank and Malayan Insurance Company and the President and/or Chief Executive Officer of GPL Holdings, Inc., House of Investments, Inc., Grepalife Asset Management Corporation and Grepalife Fixed Income Fund Corporation. She is also a director of several companies engaged in banking, insurance and real property businesses. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

**Rev. Fr. Bienvenido F. Nebres, S.J.** has been a director of PLDT since November 24, 1998. He is the Chairman of the Audit Committee and a member of the Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. In October 2011, he was elected as independent director of Digitel. He is the Chairman of the Board of Trustees of Center for Leadership and Change, Inc. and a member of the Board of Trustees of Sacred Heart School – Jesuit Cebu City, Loyola School of Theology and United Board for Christian Higher Education in Asia. He was conferred the rank and title of the Order of National Scientist by President Benigno Simeon C. Aquino III on October 25, 2011 and awarded an Honorary Doctorate by the University of San Francisco, CA, USA and Liverpool Hope University, UK in May and July 2011, respectively. Rev. Fr. Nebres received his Ph.D in Mathematics from the Stanford University.

**Mr. Pedro E. Roxas** has been a director of PLDT since March 1, 2001. He serves as a member of the Governance and Nomination, Audit and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman and/or Chief Executive Officer/President of various business organizations in the fields of agri-business, sugar manufacturing and real estate development including Roxas Holdings Inc., Roxas and Company, Inc., Roxaco Land Corporation, Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc., Roxol Bioenergy Corporation, Fuego Land Corporation and Hawaiian Philippine Sugar Company, an independent director of Meralco and BDO Private Bank, and a director of Brightnote Assets Corporation. Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

**Mr. Juan B. Santos** has been a director of PLDT since January 25, 2011. He is the Chairman of Social Security Commission, a member of the Board of Directors of Alaska Milk Corporation, First Philippine Holdings Corporation, Sun life Grepa Financials, Inc. Philex Mining Corporation and Zuellig Group, Inc., a member of the Board of Advisors of Coca Cola Bottlers Phils., Inc. and East-West Seeds Co., Inc., a trustee of St. Luke's Medical Center and Ramon Magsaysay Award Foundation, and a consultant of the Marsman-Drysdale Group of Companies.

Mr. Santos retired as Chief Executive Officer of Nestle Philippines, Inc. ("NPI") in 2003 and continued to serve as Chairman of NPI until 2005. Prior to his appointment as President and CEO of NPI, he was CEO of the Nestle Group of Companies in Thailand and Singapore. He served as Secretary of Trade and Industry from February to July 2005 and was designated as a member of the Governance Advisory Council, and Private Sector Representative for the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. Mr. Santos obtained his Bachelor of Science Degree in Business Administration from Ateneo de Manila University, pursued post graduate studies at the Thunderbird Graduate School of Management in Arizona, USA and completed the Advanced Management Course at IMD in Lausanne, Switzerland.

**Mr. Setsuya Kimura** was appointed as a director of PLDT on July 5, 2011. He is a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees, and Advisor of the Audit Committee of the Board of Directors of PLDT. He is the Executive Director of Strategic Investment &

Alliance, Global Division of NTT DoCoMo, Inc. Prior to that, he served as Director of Network Department of NTT DoCoMo, Inc. He also served as Regional CEO, Asia Pacific of NTT Communications and President & CEO of NTT Singapore Pte Ltd from 2007 to 2009, and as President & CEO of NTT Communications (Thailand) Co. Ltd from 2003 to 2007. Prior to that, he occupied various management positions in Nippon Telephone and Telegraph Company. Mr. Kimura obtained his Bachelor's Degree in Civil Engineering from Hokkaido University.

**Mr. Hideaki Ozaki** was appointed as director of PLDT on December 6, 2011. He is the Vice President of Planning, Global Sales/Global Business of NTT Communications Corporation ("NTT Com"). He served as part-time Director of NTT Communications Philippines from July 2009 to February 2012. Prior to that, he served as Vice President of Global Strategy, Global Business Division of NTT Com since 2006 and as Director of Legal and Internal Audit Department of NTT Com from 2003 to 2006. He also served as Vice President of Sales and Corporate Planning of NTT Communications (Thailand) Co., Ltd. from 1999 to 2003 and as Manager of Overseas Business Planning, Global Service Division of Nippon Telegraph and Telephone Corporation from 1995 to 1999. Mr. Ozaki obtained his Bachelor's Degree in Law from University of Tokyo and Master's Degree in Law from University of Pennsylvania.

**Mr. Tony Tan Caktiong** has been a director of PLDT since July 8, 2008. He is the Chairman and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fastfood business, which owns and operates a chain of restaurants nationwide and abroad. He is an independent director of First Gen Corporation, and a member of the Board of Trustees of Jollibee Foundation, Temasek Foundation and St. Luke's Medical Center. Mr. Tan Caktiong obtained his Bachelor of Science Degree in Chemical Engineering from University of Santo Tomas and honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

**Mr. Alfred V. Ty** has been a director of PLDT since June 13, 2006. He serves as a member of the Audit, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Lexus Manila, Inc. and Asia Pacific Top Management International Resources Corp. (Marco Polo Plaza Cebu), the Vice Chairman of Toyota Motor Philippines Corporation, the President of Federal Land, Inc., and the Corporate Secretary of Metropolitan Bank and Trust Company and Metrobank Foundation, Inc. He is also an independent director of Digitel and a director of Global Business Power Corp. Mr. Ty received his Bachelor of Science Degree in Business Administration from the University of Southern California.

**Atty. Ray C. Espinosa** has been a director of PLDT since November 24, 1998 and is a member of the Technology Strategy Committee of the Board of Directors of PLDT. He is the Head of the Regulatory Affairs and Policies Group of PLDT since March 2008. He also serves as the President and Chief Executive Officer of MediaQuest Holdings, Inc., ABC Development Corporation (TV5), Mediascape, Inc. (Signal TV), Nation Broadcasting Corporation and other subsidiaries of MediaQuest Holdings, Inc. and is the Vice Chairman of Philweb Corporation and the Board of Trustees of the PLDT Beneficial Trust Fund. He is a director of several companies engaged in electricity, mining, other public utility and media businesses.

Atty. Espinosa served as President and Chief Executive Officer of ePLDT, Inc. from August 21, 2000 until April 15, 2010. Prior to joining PLDT, he was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2000. He topped the Philippine Bar examination in 1982 after graduating Salutatorian of Law Class 1982 from the Ateneo de Manila University and received his Master of Laws Degree from the University of Michigan Law School.

**Atty. Ma. Lourdes C. Rausa-Chan** has been a director of PLDT since March 29, 2011. She has been serving as Corporate Secretary, Corporate Affairs and Legal Services Head and Chief Governance Officer of PLDT since November 1998, January 1999 and March 2008, respectively. She is a director of PCEV and also serves as Corporate Secretary of PCEV and several subsidiaries of PLDT. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Ms. Rausa-Chan obtained her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Except for Messrs. Setsuya Kimura and Hideaki Ozaki who are Japanese citizens, all of the other directors/independent directors are Filipino citizens.

**Ms. Anabelle L. Chua**, Treasurer and Corporate Finance and Treasury Head, concurrently holds the position of Chief Financial Officer of Smart since 2006. She holds directorships in Philippine Telecommunications Investment Corporation, Smart and several subsidiaries of PLDT and Smart including ePLDT, Digitel, SPi Global Holdings, Inc., SPi Technologies, Inc., SPi CRM, Inc., Aces Philippines Cellular Satellite Corp., PCEV, Wolfpac Mobile, Inc., Smart Broadband, Inc., Connectivity Unlimited Resources, Inc., Airborne Access Corporation, Smart Hub, Inc. and Chikka Holdings Limited. She is a member of the Board of Directors of Philippine Stock Exchange, Board of Trustees of the PLDT Beneficial Trust Fund and PLDT-Smart Foundation. She has over 20 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

**Mr. Ernesto R. Alberto** was appointed as Enterprise and International and Carrier Business Head in September 2011. Prior to that, he was the Customer Sales and Marketing Group Head since February 2008. He leads all revenue generation relationship initiatives of the Enterprise and International and Carrier Business, including product/market development, product management, marketing, sales and distribution, and customer relationship management. He is the Chairman, President or director of PLDT Subic Telecom, Inc., PLDT Clark Telecom, Inc., PLDT-Philcom, Inc., PLDT-Maratel, Inc., Telesat, Inc., SBI-Cruztelco, Bonifacio Communications Corporation, Mabuhay Satellite Corporation, Smart NTT Multi-Media, NTT Communications Phils., Acasia and Asean Telecom Holdings. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. Mr. Alberto obtained his Master's Degree in Economic Research from the University of Asia and the Pacific.

**Mr. Rene G. Bañez**, Supply Chain, Asset Protection and Management Group Head, was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Support Services and Tax Management Group Head of PLDT from January 1999 to January 2001. He is the President of Pacific Global Aviation Company. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for 3 years until December 1998. He holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Laws Degree from the Ateneo de Manila University.

**Mr. Jun R. Florencio**, Internal Audit and Fraud Risk Management Head, handles the overall coordination of the internal audit function of the PLDT group of companies and in-charge of the fraud risk management function of the PLDT fixed business. He has over 25 years of work experience in the areas of external and internal audit, revenue assurance, credit management, information technology, financial management, and controllership. He was the Financial Controller of Smart for four years before he joined PLDT in April 1999 as Head of Financial Management Sector. He held various positions in the finance organization of another telecommunications company prior to joining Smart. Mr. Florencio obtained his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Santo Tomas and attended the Management Development Program of the Asian Institute of Management.

**Mr. Menardo G. Jimenez, Jr.**, Human Resources Group Head and concurrently Business Transformation Office Head, was Revenue Team Head of the Business Transformation Office from January 2008 to July 2010, the Retail Business Head of PLDT from June 2004 to December 31, 2007 and, prior to that, the Corporate Communications and Public Affairs Head. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. He won the first CEO Excel Awards (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communications strategies in managing the PLDT retail business team to meet its targets and achieve new heights in the landline business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez obtained his AB Economics Degree from the University of the Philippines.

**Mr. George N. Lim**, Network Services Assurance Head and concurrently Network Team Head of Business Transformation Office, has over 30 years of work experience in telecommunications management. He was the Network Services Head from February 2003 to December 2007, Network Development and Provisioning

Head from February 1999 to January 2003 and Marketing Head from December 1993 to February 1999. Mr. Lim holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Science Degree in Electrical Engineering from Mapua Institute of Technology and Master of Science Degree in Industrial Economics from the University of Asia and Pacific (formerly Center for Research and Communication).

**Mr. Claro Carmelo P. Ramirez** was recently appointed as President of Pilipinas Global Network Limited, the international distribution arm of TV 5. He has over 20 years of work experience in the field of marketing. Prior to joining PLDT, he held various managerial positions in Colgate Palmolive Philippines, Inc., and served as Associate Director for Global Business Development of Colgate Palmolive Company in New York and as Marketing Director of Colgate Palmolive Argentina, S.A.I.C. and Colgate-Palmolive Phils, Inc. While in PLDT, he was the Head of Consumer Marketing, Retail Business Group (RBG), International and Carrier Business Group (ICBG), and Customer Care. He also held director positions in various PLDT subsidiaries and affiliates and served as President and CEO of PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., and PLDT Maratel, Inc. He graduated from the Ateneo de Manila University with a Bachelor of Arts Degree Major in Economics Honors program.

**Mr. Alejandro O. Caeg** is the President and Chief Executive Officer of PLDT Global Corporation and concurrently the Head of PLDT and Smart International & Carrier Business. He is Smart's representative to the Conexus Mobile Alliance (one of Asia's largest cellular roaming alliances), where he was also designated as its Deputy Chairman since 2010. Prior to joining PLDT in 2009, he worked in PT Smart Telecom (Indonesia) as its Chief Commercial Strategy Officer from July 2008 to December 2008 and as Chief Commercial Officer from January 2006 to June 2008. He also held various sales, marketing and customer service-related positions in Smart including that of Group Head of Sales and Distribution (2003-2005), Group Head of Customer Care and National Wireless Centers (1998-2001) and Marketing Head of International Gateway Facilities and Local Exchange Carrier (1997-1998). He also served as President and Chief Executive Officer of Telecommunications Distributors Specialist, Inc. in 2002 and as Chief Operations Adviser of I-Contacts Corporation (Smart's Call Center subsidiary) from 2001 to 2002. Mr. Caeg graduated from De La Salle University Manila with a Bachelor's Degree in AB Applied Economics.

**Ms. June Cheryl A. Cabal-Revilla**, Controller and Financial Reporting and Controllershship Head, is also a director and the chief financial officer/treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. She is also the Chief Finance Officer of the Philippine Disaster Recovery Foundation and the President of Tahanan Mutual Building and Loan Association. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. In March 2010, she was appointed as a member of the Financial Reporting Standards Council of the Philippines. Ms. Cabal obtained her Bachelor of Science Degree in Accountancy from De La Salle University and Master in Business Management Degree from the Asian Institute of Management.

The following is a brief description of the business experience of the other member of senior management of PLDT as at February 29, 2012:

**Mr. Rolando G. Peña** was designated, in January 2011, as the Technology Head for PLDT and Smart and is responsible for developing and overseeing the Technology Roadmap for the PLDT Group. He heads the evaluation, analysis, execution of the accelerated network build-out program encompassing fixed, wireless, broadband and IT networks of PLDT and Smart. He is a director of Smart and some subsidiaries of Smart and PLDT. Mr. Peña has over 28 years of experience in telecommunication operations. From 2008 to January 2011, he was the Customer Service Assurance Group Head of PLDT and Smart. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña obtained his Electronics and Communications Engineering Degree from Pamantasan ng Lungsod ng Maynila and is a Fellow at the Telecommunications Management Institute of Canada (TEMIC).

**Mr. Isaias Ariel P. Fermin** was designated on January 1, 2012 as the Head for Home Business segment. Mr. Fermin has over 20 years of solid marketing, sales and entrepreneurial experience gained from leading Fast Moving Consumer Group companies locally and globally. Prior to joining the PLDT Group, Mr. Fermin was the President of Greenwich Food Corporation and Chowking Food Corporation of the Jollibee Food Corporation from

2008 to 2011. He also served as Country Director of Nike Philippines from 2006 to 2008 and handled various posts in Unilever-Bestfoods California Manufacturing Company from 1998 to 2005 and senior executive for sales, marketing, media and innovation process management. Mr. Fermin obtained his Bachelor of Science in Chemical Engineering Degree from the University of the Philippines.

**Mr. Emmanuel Ramon C. Lorenzana** was designated on January 1, 2012 as the Head for Individual/Personal Business segment. He will spearhead Smart's Individual/Personal Mobile Business. Mr. Lorenzana was the President and Chief Operating Officer of NutriAsia Group, makers of leading food brands since November 2008. Prior to that, he was the Chairman and Managing Director of Unilever Malaysia and Singapore from 2007 until October 2008. He held management positions in several Unilever companies including Unilever Philippines' Home and Personal Care, as Marketing Director, Marketing Operations Lead for Southeast Asia from 2004 to 2007 and as Business Planning and Trade Marketing Director of Unilever Philippines from 2000 to 2001, Unilever Oral Care Category, Jakarta, Indonesia, as Vice President Asia from 2001 to 2004 and Unilever Shanghai Toothpaste Company, Shanghai, China, as Marketing Director and Head of Trade Marketing from 1997 to 1999. Mr. Lorenzana obtained his Bachelor of Science in Chemical Engineering Degree from the University of the Philippines and attended various Executive Programs at the Massachusetts Institute of Technology in Boston, Kellogg School of Management in Chicago, and Ashridge Management School in London.

The following is a list of directorships in other private and public companies of the directors/independent directors named below:

Name of Director	Name of Companies	
	Public	Private
Helen Y. Dee	EEI Corporation (Director)	Hi-Eisai Pharmaceuticals, Inc. (Director/Chairman)
	National Reinsurance Corporation of the Philippines (Director/Chairman)	Honda Cars, Kalookan (Director)
	Petro Energy Resources Corporation (Director)	Honda Cars Philippines, Inc. (Director)
	Rizal Commercial Banking Corporation (Director/Chairman)	Isuzu Philippines, Inc. (Director)
	Seafront Resources Corporation (Director)	La Funeraria Paz, Inc. (Director/Chairman)
	Bankard, Inc. (Director)	Landev Corp. (Director/Chairman)
		Malayan Insurance Company (Director/Chairman)
		Manila Memorial Park Cemetery, Inc. (Director/Chairman)
		Mapua Information Technology Center, Inc. (Director/Chairman)
		Merchants Bank (Chairman)
		MICO Equities, Inc.
		Pan Malayan Express
		Pan Malayan Management and Investment Corporation (Vice Chairman)
		Pan Malayan Realty Corp. (Chairman)
		RCBC Forex Brokers Corp. (Chairman)
	RCBC Savings Bank (Chairman)	
	South Western Cement Corporation (Chairman)	
	Xamdu Motors, Inc. (Chairman)	
Ray C. Espinosa	Cyber Bay Corporation (Director)	ABC Development Corporation
	Digital Telecommunications, Inc.	Beacon Electric Asset Holdings, Inc.
	Lepanto Consolidated Mining Company (Independent Director)	Bonifacio Communications Corporation
	Metro Pacific Investments Corporation (Director)	ePDS, Inc.
	Manila Electric Company (Director)	Meralco PowerGen Corporation
	Philweb Corporation (Director/Vice Chairman)	Metro Pacific Assets Holdings, Inc.
		Metro Pacific Resources, Inc.
		Philippine Telecommunications Investment Corporation

### Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

### Family Relationships

None of the directors, key officers and advisors of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

## Legal Proceedings

The Company is not aware, and none of the directors/independent directors and officers or persons nominated for election to such positions has informed the Company, of any of the following events that occurred during the past five years:

- (a) any bankruptcy petition filed by or against any business of which a director/independent director or officer or person nominated for election as a director/independent director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or officer or person nominated for election as a director/independent director or officer, except as noted below;
- (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or officer or person nominated for election as a director/independent director or officer in any type of business, securities, commodities or banking activities; and
- (d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director/independent director or officer or person nominated for election as a director/independent director or officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

The following is a description of the complaints in which our director and President and Chief Executive Officer, Mr. Napoleon L. Nazareno and director and Corporate Secretary, Atty. Ma. Lourdes C. Rausa-Chan are respondents:

1. Mr. Napoleon L. Nazareno and other directors and officers of the former PDCP Bank and some officers of the BSP and Development Bank of the Philippines (hereinafter the "Respondents"), were charged in a complaint docketed as I.S. No. 2004-631 filed by Chung Hing Wong/ Unisteel/Unisco Metals, Inc. (the "Complainants") with the DOJ, for alleged syndicated estafa, estafa thru falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the Complainants alleged that the officers and directors of PDCP Bank deceived the Complainants to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the Complainants' corporation. As stated in Mr. Nazareno's counter-affidavit, the charges against him are manifestly unmeritorious since he has not personally met the Complainants, nor is he a party to the questioned transactions and, as such, could not have deceived the Complainants in any manner. The complaint was referred to the Office of the Ombudsman, or OMB, by the DOJ on October 30, 2007 considering that some of the Respondents are public officers and the offenses charged were committed in the performance of their official functions.

Meanwhile, on July 23, 2008, the Complainants filed with the DOJ a Motion for Reconsideration of a Resolution of the DOJ dated September 7, 2007 dismissing their complaint. It appears that prior to forwarding the case records to the OMB, the DOJ has prepared a Resolution recommending the dismissal of all the charges against the Respondents but did not release the said Resolution to the parties because it wanted the OMB to conduct a review of the DOJ Resolution in view of the fact that some of the Respondents are public officers.

In an Order dated July 30, 2008, the OMB confirmed that it was conducting a review of the said DOJ Resolution for the abovestated reason and that its authority relative to the case forwarded to it by the DOJ is limited to conducting a review of the DOJ Resolution and not to conduct another preliminary investigation of the case.

In the OMB's Review and Recommendation dated November 28, 2008, the OMB approved the DOJ Resolution dated September 7, 2007 dismissing the complaint and referred the case to the DOJ for appropriate action.

The Complainants filed separate Motions for Reconsideration before the DOJ and OMB on July 16, 2008 and December 1, 2009, respectively. On December 16, 2009, the DOJ issued a resolution denying the Complainants' Motion for Reconsideration for lack of merit. In response, the Complainants filed a Petition for Review with the Secretary of Justice on March 2, 2010, Mr. Nazareno and the other Respondents have filed their respective comments to the petition, which remain pending to date with the Office of the Secretary of Justice.

With respect to the Complainants' Motion for Reconsideration with the OMB, following appeals to the Court of Appeals and the Supreme Court, the denial of the Motion for Reconsideration by the OMB became final and unappealable on March 28, 2011.

2. Atty. Ma. Lourdes C. Rausa-Chan and other former corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation, are respondents in a complaint docketed as OMB C-C-04-0363-H (CPL No. C-04-1248), filed with the OMB. The complaint is for alleged: (a) violation of Republic Act No. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); (b) estafa through falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code, or RPC; (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It relates to various tax credit certificates (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly, a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The complaints against Atty. Rausa-Chan involve the first two offenses only and in her capacity as corporate secretary of Metro Paper and Packaging Products, Inc. In the opinion of the legal counsel of Atty. Rausa-Chan, there are no legal and factual bases for her inclusion as respondent in this complaint. Atty. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. The case is still pending with the OMB.

### **Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees**

Our board of directors is authorized under the by-laws to create committees, as it may deem necessary. We currently have four board committees, namely, the audit, governance and nomination, executive compensation and technology strategy committees, the purpose of which is to assist our board of directors. Each of these committees has a board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board of directors.

#### *Audit Committee*

Our audit committee is composed of three members, all of whom are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Alfred V. Ty. Mr. Setsuya Kimura and Mr. James L. Go, non-independent members of our board of directors, Mr. Roberto R. Romulo, an independent member of our advisory board/committee, and Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, serve as advisors to the audit committee. All of the members of our audit committee are financially literate and Ms. Corazon S. de la Paz-Bernardo, an advisor to the audit committee, is an accounting and financial management expert.

As provided for in our audit committee charter, as amended, any member of the audit committee may cause the Audit Committee advisor to be excluded from the committee's meetings, as such member deems appropriate in order for the committee to carry out its responsibilities, until the committee has completed discussion of the topic for which the member requested the Audit Committee advisor to be excluded or until such member has withdrawn its request.

As provided for in the audit committee charter, the purpose of the audit committee is to assist our board of directors in fulfilling its oversight responsibility for: (i) PLDT's accounting and financial reporting principles and policies, and system of internal audit controls, including the integrity of PLDT's financial statements and the independent audit thereof; (ii) PLDT's compliance with legal and regulatory requirements; (iii) PLDT's assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks; and (iv) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;
- to select and appoint the external auditors and to remove or replace the external auditors;
- to review and approve in consultation with the head of the internal audit organization and the head of the finance organization all audit and non-audit services to be performed by the external auditors and the fees to be paid to the external auditors for such services;
- to pre-approve all audit and non-audit services to be provided by and all fees to be paid to the external auditors;
- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor's independence;
- to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT's accounts is rotated at least once every five years or such shorter or longer period provided under applicable laws and regulations;
- to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;
- to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and
- to resolve disagreements between management and the external auditors regarding financial reporting.

The audit committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

#### *Audit Committee Report*

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2011 that:

- Each voting member of the audit committee is an independent director as determined by the Board of Directors;
- The audit committee had eight regular meetings during the year;
- The audit committee has reviewed and approved the revised Audit Committee Charter which was subsequently endorsed to and adopted by the Board of Directors;
- The audit committee likewise discussed with PLDT's internal audit group and SGV & Co. the overall scope and plans for their respective audits, and the results of their examinations, their evaluations of PLDT Group's internal controls and the overall quality of the PLDT Group's financial reporting;
- The audit committee has reviewed and approved all audit and non-audit services provided by SGV & Co. to the PLDT Group, and the related fees for such services, and concluded that the non-audit fees are not significant to impair their independence;



- The audit committee has discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standard, and has received written disclosures and the letter from SGV & Co. as required by the prevailing applicable Independence Standards (Statement as to Independence) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;
- The audit committee has reviewed with PLDT Group's Enterprise Risk Management, or ERM, Officer updates on the ERM activities including results of internal risk assessments and various ERM initiatives;
- In the performance of their oversight responsibilities, the audit committee has reviewed and discussed the audited financial statements of the PLDT Group as at and for the year ended December 31, 2011 with the PLDT Group's management, which has the primary responsibility for the financial statements, and with SGV & Co., the PLDT Group's independent auditor, who is responsible for expressing an opinion on the conformity of the PLDT Group's audited financial statements with PFRS;
- Based on the reviews and discussions referred to above, in reliance on the PLDT Group's management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to the Board of Directors and the Board has approved, the inclusion of the PLDT Group's financial statements as at and for the year ended December 31, 2010 in the PLDT Group's Annual Report to the Stockholders and to the Philippine SEC on Form 17-A and U.S. SEC on Form 20-F; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as the PLDT Group's independent auditor.

#### *Governance and Nomination Committee*

Our GNC is composed of five voting members, all of whom are regular members of our Board of Directors and three non-voting members, including Former Chief Justice Artemio V. Panganiban, who serves as an independent non-voting member. Three of the voting members are independent directors namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Pedro E. Roxas. Two are non-independent directors namely, Mr. Setsuya Kimura and Mr. Manuel V. Pangilinan who is the chairman of this committee. Mr. Menardo G. Jimenez, Jr., and Atty. Ma. Lourdes C. Rausa-Chan are the other non-voting members.

The principal functions and responsibilities of our GNC are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;
2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring board appointment;
3. To identify the qualified nominees and recommend that the board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and
4. To provide an assessment on our board's effectiveness in the process of replacing or appointing new directors or members of the board committees.

#### *Executive Compensation Committee*

Our ECC is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely Mr. Pedro E. Roxas, Rev. Fr. Bienvenido F. Nebres, S.J., and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Setsuya Kimura and Mr. Manuel V. Pangilinan, who is chairman of this committee as at December 31, 2011. Mr. Menardo G. Jimenez, Jr. is the non-voting member.

The principal functions and responsibilities of our ECC are:

1. To provide guidance to and assist our board of directors in developing a compensation philosophy or policy consistent with our culture, strategy and control environment;
2. To oversee the development and administration of our compensation programs; and
3. To review and approve corporate goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives, and set the compensation level of our chief executive officer based on such evaluation.

#### *Technology Strategy Committee*

Our TSC is composed of seven members, all of whom are voting members. Six are non-independent directors, namely Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Atty. Ray C. Espinosa, Mr. Oscar S. Reyes, Mr. James L. Go and Mr. Setsuya Kimura. Mr. Orlando B. Veja, a member of our advisory board/committee, is the non-voting member of this committee.

The principal functions and responsibilities of our TSC are:

1. To review and approve our technology strategy and roadmap, and to review and advise our board on major technology trends and strategies;
2. To evaluate and advise our board on actual and proposed technology investments and transactions;
3. To review and submit to the board recommendations regarding management's formulation and execution and overall performance in achieving technology-related strategic goals and objectives; and
4. To recommend to the board approaches to acquiring and maintaining technology positions and maximizing our access to relevant technologies, and to ensure optimized contribution of technology to our business strategy and growth targets.

Effective June 12, 2007, our board of directors dissolved the finance committee, since, for several years thereto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our board.

#### *Advisory Committee*

Our Advisory Committee is composed of former Chief Justice Artemio V. Panganiban, Mr. Roberto R. Romulo, Mr. Benny S. Santoso, Mr. Orlando B. Veja, Mr. Christopher H. Young, Mr. Oscar S. Reyes and Mr. Washington Z. Sycip. The Advisory Committee provides guidance and suggestions, as necessary, on matters deliberated upon during board meetings.

## Item 10. Executive Compensation and Stock Option Plan

### Executive Compensation

The following table is the list of the key officers, including the chief executive officer, and directors of PLDT as at February 29, 2012:

Name	Position(s)
Manuel V. Pangilinan.....	Director, Chairman of the Board
Napoleon L. Nazareno.....	Director, President and Chief Executive Officer
Helen Y. Dee .....	Director
Ray C. Espinosa .....	Director
James L. Go <sup>(1)</sup> .....	Director
Setsuya Kimura <sup>(2)</sup> .....	Director
Rev. Fr. Bienvenido F. Nebres, S.J.....	Independent Director
Hideaki Ozaki <sup>(3)</sup> .....	Director
Pedro E. Roxas .....	Independent Director
Juan B. Santos .....	Director
Tony Tan Caktiong.....	Director
Alfred V. Ty .....	Independent Director
Ma. Lourdes C. Rausa-Chan <sup>(4)</sup> .....	Director, Senior Vice President, Corporate Affairs and Legal Services Head, Corporate Secretary and Chief Governance Officer
Ernesto R. Alberto.....	Senior Vice President, Customer Sales and Marketing Head
Anabelle L. Chua.....	Senior Vice President, Corporate Finance and Treasury Head and Treasurer
Rene G. Bañez.....	Senior Vice President, Supply Chain, Asset Protection and Management Head
Alejandro O. Caeg.....	Senior Vice President, International and Carrier Business Head
Jun R. Florencio .....	Senior Vice President, Internal Audit and Fraud Risk Management Head
Menardo G. Jimenez, Jr. ....	Senior Vice President, Human Resources Head and Business Transformation Office
George N. Lim.....	Senior Vice President, Network Services Assurance Head and Business Transformation Office – Network Team
Claro Carmelo P. Ramirez .....	Senior Vice President, Office of the President and CEO
June Cheryl A. Cabal-Revilla .....	First Vice President, Financial Reporting and Controllershship Head

<sup>(1)</sup> Elected effective November 3, 2011.

<sup>(2)</sup> Elected effective July 5, 2011.

<sup>(3)</sup> Elected effective December 6, 2011.

<sup>(4)</sup> Elected effective March 29, 2011.

The following table below sets forth the aggregate amount of compensation paid in 2011 and 2010 and estimated amount of compensation expected to be paid in 2012 to: (1) the President and Chief Executive Officer, Napoleon L. Nazareno and four most highly compensated officers of PLDT, as a group, namely; Menardo G. Jimenez, Jr., Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan in 2010 and 2011; and (2) all other key officers, other officers and directors, as a group.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	Estimate	Actual	
	(in millions)		
President and CEO <sup>(1)</sup> and four most highly compensated key officers:			
Salary <sup>(2)</sup>	Php62	Php53	Php51
Bonus <sup>(3)</sup>	15	13	12
Other compensation <sup>(4)</sup>	16	43	225
	<u>93</u>	<u>109</u>	<u>288</u>
All other key officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated key officers):			
Salary <sup>(2)</sup>	265	239	232
Bonus <sup>(3)</sup>	69	61	61
Other compensation <sup>(4)</sup>	115	214	1,087
	<u>Php449</u>	<u>Php514</u>	<u>Php1,380</u>

<sup>(1)</sup> The President and CEO receives compensation from Smart but not from PLDT

<sup>(2)</sup> Basic monthly salary

<sup>(3)</sup> Includes longevity pay, mid-year bonus, 13<sup>th</sup> month and Christmas bonus

<sup>(4)</sup> Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both the individual and group team performance and is tied to the achievement of Corporate/Unit/Customer Satisfaction Objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. The 2010 other compensation includes LTIP payments during the year. See Note 24 – Related Party Transactions – Compensation of Key Officers of the PLDT Group to the accompanying consolidated financial statements in Item 7 for further discussion.

Each of the directors of the Company is entitled to a director's fee for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved an increase in director's board meeting attendance fees to Php200 thousand from Php125 thousand and board committee meeting attendance fees to Php75 thousand from Php50 thousand. The attendance fees for directors were last adjusted in July 1998. The ECC recommended the increase taking into consideration PLDT's profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that PLDT's directors' remuneration, consisting only of fees for meeting attendance, and/or retainer fees and profit share were below the median of directors' remuneration among participating companies in the survey.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of *per diems* paid to the directors for their attendance in Board and Board Committee meetings is included in other compensation in the above table. The total amount of *per diems* paid in 2011 and 2010 were approximately Php40 million and Php35 million, respectively. The total amount of *per diems* estimated to be paid in 2012 is approximately Php46 million.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

### **Long-term Incentive Plan**

On August 28, 2006, the PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, 2007 to 2009 LTIP, upon endorsement of the ECC, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and

contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the 2007 to 2009 Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle. The 2007 to 2009 LTIP payments were made in April 2010.

The 2010 to 2012 LTIP has been presented to and approved by the Employees Compensation Commission and Board of Directors, and is based on profit targets covering the Performance Cycle. The cost of the 2010 to 2012 LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets.

The LTIP is a cash plan that is intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group, and administered by the ECC which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and taking into account such participant's seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million for the year ended December 31, 2009. The outstanding LTIP liability amounted to Php4,582 million as at December 31, 2009 was paid in April 2010. Total outstanding liability and fair value of the 2010 to 2012 LTIP amounted to Php1,392 million as at and for the year ended December 31, 2010. Based on our latest projection, the profit targets for the covered Performance Cycle is no longer achievable, thus, accrued LTIP cost as at December 31, 2010 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions*, *Note 5 – Income and Expenses*, *Note 23 – Accrued and Other Current Liabilities* and *Note 25 – Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 7 for related discussion.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, our LTIP has been revised and, with the endorsement of the ECC, approved by the Board of Directors on March 22, 2012. The award in the revised LTIP is contingent upon the successful achievement of certain profit targets, aligns the execution of the business strategies of the expanded Group, including Digitel, over the three year period 2012 to 2014. In addition, the revised LTIP allows for the participation of a number of senior executives and important new hires executives, ensures the continuity of management and assists in succession planning of the PLDT Group.

There are no other warrants or options held by PLDT's officers or directors either singly or collectively.

## Item 11. Security Ownership of Certain Beneficial Owners, Directors and Key Officers

### Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding ownership of shares of PLDT's common stock as at February 29, 2012, of all shareholders known to us to beneficially own 5% or more of PLDT's shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT's common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's common stock.

Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Philippine Telecommunications Investment Corporation <sup>(1)</sup> 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263 <sup>(2)</sup>	12.05
Common	Metro Pacific Resources, Inc. <sup>(3)</sup> c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	21,556,676 <sup>(2)</sup>	9.98
Common	NTT Communications Corporation <sup>(4)</sup> 1-1-6 Uchisaiwai-cho, 1-chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote (5)	12,633,487	5.85
Common	NTT DOCOMO, Inc. <sup>(6)</sup> 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote (5)	22,796,902 <sup>(7)</sup>	10.55
Common	PCD Nominee Corporation <sup>(8)</sup> 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas St. Makati City	Philippine Corporation	See Footnote (8)	66,504,767	30.78
Common	J. P. Morgan Asset Holdings (HK) Limited <sup>(9)</sup> (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote (9)	49,023,861	22.69
Common	JG Summit Group <sup>(10)</sup> 42/F Robinson's Equitable Tower ADB Avenue corner Poveda Road Ortigas Center, Pasig City	Philippine Corporation	See Footnote (10)	17,305,625	8.01
Common	Lazard Asset Management LLC <sup>(11)</sup>	Delaware Corporation	See Footnote (11)	13,725,776	6.35

<sup>(1)</sup> Based on a resolution adopted by the Board of Directors of PTIC, the Chairman of the Board of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.

<sup>(2)</sup> In addition to the 26,034,263 shares and 21,556,676 shares of PLDT common stock owned on record by PTIC and Metro Pacific Resources, Inc., or MPRI, respectively, both of which are Philippine affiliates of First Pacific, 7,653,703 shares representing approximately 3.54% of the outstanding common stock of PLDT are owned by non-Philippine wholly-owned subsidiaries of First Pacific, PTIC, MPRI and the non-Philippine wholly-owned subsidiaries of First Pacific (referred to herein as First Pacific Group), collectively owned 25.57% of the outstanding common stock of PLDT as at February 29, 2012.

<sup>(3)</sup> Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI in the Annual Meeting.

- (4) Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT Communications.
- (5) In publicly available reports filed by NTT Communications and NTT DOCOMO, it is stated that because of NTT's ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DOCOMO, NTT, NTT Communications and NTT DOCOMO may be considered to constitute a "group" within the meaning of Rule 18.1(5)(C) of the Amended Implementing Rules and Regulations of the Philippine Securities Regulation Code. Therefore, each of them may be deemed to have beneficial ownership of the 43,963,642 shares in aggregate held by NTT Communications and NTT DOCOMO, representing approximately 20% of the outstanding common stock of PLDT as at February 29, 2012.
- (6) Based on publicly available information, NTT DOCOMO, is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DOCOMO, Mr. Hajime Kii or Mr. Mutsuo Yamamoto, is authorized to execute for and on behalf of NTT DOCOMO, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DOCOMO.
- (7) The total PLDT shareholdings of NTT DOCOMO is 31,330,155 common shares, of which 22,796,902 are owned on record by NTT DOCOMO, and 8,533,253 are shares underlying ADSs, collectively representing 14.50% of the outstanding common stock of PLDT as at February 29, 2012.
- (8) PCD is the registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders' meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients.

*This account also includes 17,305,625 shares beneficially owned by JGS. Please refer to footnote 10.*

*Based on available information, none of the owners of the PLDT common shares registered under the name of PCD, owned more than 5% of PLDT's outstanding common stock as at February 29, 2012, except for JGS as provided above and The Hongkong and Shanghai Banking Corp. Ltd.—Clients, which owned approximately 11.04% of PLDT's outstanding common stock as of such date. PLDT has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking Corp. Ltd.—Clients owned more than 5% of PLDT's outstanding common stock as at February 29, 2012.*

- (9) JP Morgan Asset Holdings (HK) Limited holds shares as nominee of JPMorgan Chase Bank, successor depository under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs evidencing ADSs, representing shares of common stock of PLDT (the "Deposit Agreement"). Under the Deposit Agreement, if the depository does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depository to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.

*This account also includes 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DOCOMO, 7,653,703 shares of PLDT common stock underlying ADS beneficially owned by non-Philippine wholly-owned subsidiaries of First Pacific and 13,725,776 shares of PLDT common stock underlying ADSs beneficially owned by Lazard Asset Management LLC, or LAMLLC. Please refer to footnote 11.*

- (10) JGS holds 17,305,625 shares, of which 17,138,211 shares are beneficially owned by JG Summit Holdings, Inc., 86,723 shares are beneficially owned by Express Holdings, Inc., 70,542 shares are beneficially owned by Solid Finance (Holdings), Limited, 10,148 shares are beneficially owned by Ms. Elizabeth Yu Gokongwei and 1 share is beneficially owned by Mr. James L. Go, all held on record by PCD Nominee Corporation, collectively representing 8.01% of the outstanding common stock of PLDT as at March 22, 2012.
- (11) According to the Schedule 13G/A of LAMLLC filed with the U.S. Securities and Exchange Commission on January 24, 2012, LAMLLC, as an investment adviser, beneficially owned 13,725,776 shares of PLDT common stock underlying ADSs representing 6.35% of the outstanding common stock of PLDT as at February 29, 2012.

As at February 29, 2012, approximately 41.22% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

The FP Parties had beneficial ownership of approximately 26% in our outstanding common stock as at February 29, 2012. This is the largest block of our common stock that is directly or indirectly under common ownership. As at February 29, 2012, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of our outstanding common stock. As a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties and/or, NTT Communications and/or NTT DOCOMO are able to influence our actions and corporate governance, including (i) elections of our directors; and (ii) approval of major corporate actions, which require the vote of common stockholders, among other things.

## Security Ownership of Directors and Key Officers

The following are the number of PLDT common and preferred shares owned of record and/or beneficially by the directors/independent directors, Chief Executive Officer and other key officers of PLDT as at February 29, 2012:

<u>Name of Record and Address</u>	<u>Citizenship</u>	<u>Title of Class</u>	<u>Number of shares <sup>(1)</sup></u>	<u>Amount of Holdings</u> <small>(Based on par value)</small>	<u>Percentage of Class</u>
Manuel V. Pangilinan Chairman of the Board 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	239,450 <sup>(2)</sup>	Php1,197,250	0.110828
Napoleon L. Nazareno Director President and Chief Executive Officer 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	19,927 <sup>(2)</sup>	99,635	0.009223
Helen Y. Dee Director 3/F Grepalife Bldg. Sen. Gil Puyat Ave., Makati City	Filipino	Common	98	490	0.000045
James L. Go Director 43/F Robinson's Equitable Tower ADB Avenue corner Poveda Road Ortigas Center, Pasig City	Filipino	Common	28,914	144,570	0.013383
Setsuya Kimura Director 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Japanese	Common	1	5	0.000000
Rev. Fr. Bienvenido F. Nebres, S.J. Independent Director Ateneo de Manila University 2/F Xavier Hall, Loyola Heights, QC	Filipino	Common	2	10	0.000001
Hideaki Ozaki Director 4-12-22-301 Fukasawa Setagaya-ku Tokyo 158-0081, Japan	Japanese	Common	1	5	0.000000
Pedro E. Roxas Independent Director 7/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village Makati City	Filipino	Common	21	105	0.000010
Juan B. Santos Director Chairman, Social Security Commission 12/F SSS Building, Ayala Ave., cor Herrera St., Makati City 1227	Filipino	Common	2	10	0.000001
Alfred V. Ty Independent Director 20/F GT Tower Ayala Avenue, Makati City	Filipino	Common	1	5	0.000000
Tony Tan Caktiong Director 10/F Jollibee Plaza Emerald Avenue, Ortigas Center Pasig City	Filipino	Common	1	5	0.000000



<b>Name of Record and Address</b>	<b>Citizenship</b>	<b>Title of Class</b>	<b>Number of shares <sup>(1)</sup></b>	<b>Amount of Holdings</b>	<b>Percentage of Class</b>
Ray C. Espinosa Director Regulatory Affairs and Policies Group 16/F Locsin Bldg., Ayala Avenue cor. Makati Avenue, Makati City	Filipino	Common	18,743 <sup>(2)</sup>	93,715	0.008675
Ma. Lourdes C. Rausa-Chan Director Corporate Secretary, Chief Governance Officer and Senior Vice President, Corporate Affairs and Legal Services 9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	699 <sup>(2)</sup>	3,495	0.000324
Anabelle L. Chua Treasurer and Senior Vice President, 26/F Smart Tower Ayala Avenue, Makati City	Filipino	Common	12,078 <sup>(2)</sup>	60,390	0.005590
Rene G. Bañez Senior Vice President, Supply Chain and Asset Protection and Management Group 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	1	5	0.000000
George N. Lim Senior Vice President, Network Service Assurance Business Transformation Office Network Team 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	5,356 <sup>(2)</sup>	26,780	0.002479
Claro Carmelo P. Ramirez Senior Vice President Office of the President and CEO 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	11,500	57,500	0.005323
Ernesto R. Alberto Senior Vice President, Customer Sales and Marketing Group 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	–	–	–
Menardo G. Jimenez, Jr. Senior Vice President, Human Resources, Business Transformation Office 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	22	110	0.000010
Jun R. Florencio Senior Vice President, Internal Audit and Fraud Risk Management 6/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	515	2,575	0.000238
Alejandro O. Caeg Senior Vice President, International and Carrier Business Head 9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	200	1,000	0.000093
June Cheryl A. Cabal-Revilla	Filipino	Common	–	–	–

<u>Name of Record and Address</u>	<u>Citizenship</u>	<u>Title of Class</u>	<u>Number of shares <sup>(1)</sup></u>	<u>Amount of Holdings</u>	<u>Percentage of Class</u>
First Vice President Financial Reporting and Controllership 11/F Ramon Cojuangco Bldg., Makati Avenue, Makati City					

<sup>(1)</sup> As at December 31, 2009, under PLDT's ESOP, all of the options to purchase shares of common stock of key officers and directors listed in the table above had been exercised. No options have been granted to non-executive directors. All outstanding options were exercisable at an exercise price of Php814 per share and expired on December 10, 2009. All outstanding options were fully vested as at December 10, 2004

<sup>(2)</sup> Includes PLDT common shares that have been lodged with the Philippine Central Depository, Inc.

The aggregate number of shares of common stock directly and indirectly owned by directors, key officers and advisors listed above, as at February 29, 2012, was 337,532, or approximately 0.156% of PLDT's outstanding shares of common stock.

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock had been redeemed and retired effective January 19, 2012.

### Change in Control

There has been no change in control in respect of PLDT since the beginning of 2008. We are not aware of any existing or pending transaction which may result in such a change in control.

## Item 12. Certain Relationships and Related Party Transactions

### Related Party Transactions

The following is a summary of related party accounts and transactions with subsidiaries as at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	
	(in millions)		
<b>Consolidated Statements of Financial Position:</b>			
Trade and other receivables	54,236	30,691	
Accounts payable	37,633	15,150	
Interest-bearing financial liabilities – net of current portion	17,772	178	
Dividends payable	16,322	15,000	
Derivative financial assets	8,967	–	
Derivative financial liabilities	8,967	–	
Prepayments – net of current portion	4,877	6,591	
Deferred credits and other noncurrent liabilities	4,867	6,548	
Accrued expenses and other current liabilities	1,824	2,167	
Current portion of prepayments	1,712	1,713	
Advances and other noncurrent assets – net of current portion	230	264	
Current portion of interest-bearing financial liabilities	34	34	
	2011	2010	2009
	(in millions)		
<b>Consolidated Income Statements:</b>			
Service revenues	15,484	15,091	16,598
Non-service revenues	45	173	210
Rent	7,201	8,275	10,015
Interconnection costs	5,489	4,213	4,340
Professional and other contracted services	2,095	1,984	1,655
Repairs and maintenance	747	914	734
Communication, training and travel	201	205	228
Insurance and security expenses	98	92	73
Compensation and employee benefits	14	7	14
Selling and promotions	2	4	5
Other expenses	24	25	25
Interest income	264	17	30
Financing costs – net	264	17	30
Cost of sales	2	–	40
Other income	367	455	323

For a detailed discussion of our material related party transactions, see *Note 24 – Related Party Transactions* to the accompanying consolidated financial statements in Item 7.

Except for the transactions discussed in *Note 24 – Related Party Transactions* to the accompanying consolidated financial statements in Item 7, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

There was no outstanding indebtedness at any time during the last three financial years that was owed to PLDT and/or its subsidiaries by any Related Party.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

The Philippine Long Distance Telephone Company (PLDT) has long committed itself to very high standards of corporate performance in order to achieve sustained growth and profitability and create value for its shareholders and stakeholders. It is a commitment that, in turn, demands adherence to the highest corporate governance standards and practices. Inasmuch as PLDT is a public company and its common shares are listed in the Philippine Stock Exchange (PSE), while its American Depositary Shares are listed in the New York Stock Exchange, PLDT finds itself in the unique position of being the only telecommunication company in the Philippines that is subject to, and must comply with, the corporate governance requirements of both the Philippines and the United States. These requirements are set forth under various laws, rules, and regulatory issuances, including the Philippine Revised Code of Corporate Governance, the PSE Corporate Governance Guidelines, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act and the New York Stock Exchange Listing Rules. In addition, PLDT as an associated company of First Pacific Company Ltd., which is listed in the Hong Kong Stock Exchange, also looks to the corporate governance standards of Hong Kong for guidance and benchmarking purposes.

PLDT continues to benchmark against recognized international best practices and monitor developments in corporate governance in order to elevate PLDT's CG structures, processes, and practices to global standards. Most importantly, it is endeavoring to venture beyond compliance and promote an ethical corporate culture guided by the principles of accountability, integrity, fairness and transparency.

#### **A. Governance Structures**

##### *Board of Directors*

Our Board of Directors, or Board, has the primary responsibility for ensuring principled business conduct in pursuit of promoting and protecting the interest of the Company, its stockholders, and all other stakeholders. Our Board functions within the scope of its powers and authorities provided in applicable laws, and PLDT's By-Laws, and conducts itself in accordance with Company policies such as the PLDT Manual on Corporate Governance, or CG Manual, and the PLDT Code of Business Conduct and Ethics, or Code of Ethics.

Our Board is composed of thirteen (13) qualified and competent individuals, each highly regarded in their own fields, who bring together complementary skills and expertise, and the requisite independence, probity and diligence in the exercise of their fiduciary duties. Our Board has three independent directors in Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Pedro E. Roxas and Mr. Alfred V. Ty who have been selected on the basis of specific independence criteria set out under applicable laws and rules, and in our By-Laws and CG Manual<sup>1</sup>. A

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<sup>1</sup>The number of independent directors in the PLDT Board exceeds that required under the Securities Regulation Code and its Implementing Rules and Regulations, which is at least two independent directors or such number of independent directors which constitutes at least 20% of the total number of directors, whichever is lesser.

majority of the directors are non-executive directors and only three directors are at the same time company executives.

The position of Chairman of the Board is separate from that of the Chief Executive Officer, not only as a matter of compliance, but also because of the indubitable benefits such a separation creates from a commercial and governance perspective. PLDT Chairman Manuel V. Pangilinan and PLDT President and CEO Napoleon L. Nazareno nonetheless share the responsibility of elevating good governance and principled performance to a high strategic priority for the Company.

Our directors take part in an annual assessment process whereby they are able to review and evaluate the performance of the whole Board, the Board Committees and the individuals that comprise these bodies. The assessment includes an opportunity to evaluate the performance of the CEO. This process has proven to be useful in identifying the Board's strengths and areas for improvement and eliciting individual directors' feedback and views on PLDT's strategies, performance and future direction.

Corporate governance is a field that is dynamic and full of new ideas. Our directors stay abreast with the latest developments relevant to their fiduciary duties by, among other means, attending an annual corporate governance enhancement session, facilitated by known international experts on the subject. Almost all of the current directors have undergone corporate governance training or have attended at least one enhancement session out of the five (5) enhancement sessions conducted by the Company since 2007<sup>1</sup>.

Our Board is mindful of and puts equal importance to PLDT's corporate social responsibilities. Consistent with the PLDT Group's Corporate Social Responsibility Statement, it strives to partner PLDT's resources, expertise, and business objectives with pressing societal issues. The PLDT Group and the PLDT-Smart Foundation have continuing projects in the areas of the environment and education. The PLDT Group also continues to leverage on its business expertise to develop and implement innovative projects in health, community and livelihood development, and youth development and sports. All these in the spirit of the principle that "doing well" as a business entity means "doing good" as a corporate citizen.

The complementary expertise and experience of its individual members, enables our Board to fully and efficiently perform its oversight function over Management, review PLDT's financial results and operating performance and lead efforts to establish business strategies that maximize existing advantages and incorporate new business opportunities and sources of growth. Overall, it is our Board that directs efforts to preserve and defend the PLDT Group's market leadership in the intensely competitive and technology-driven telecommunications industry.

Our Board met fifteen (15) times in 2011. Of this number, eleven (11) were regular meetings, including the organizational meeting, and four (4) were special meetings. The Chairman, the President and CEO (who is also a director) and one of the three independent directors attended all of these Board meetings. The two other independent directors attended fourteen out of the fifteen meetings. A majority of the independent directors was present in all of the Board meetings. Collective attendance by all directors in all of the meetings is more than seventy five percent (75%). In 2011, the total amount of *per diem* provided to the directors was Php31.60 million.

### ***Board Committees***

Our Advisory Committee is composed of former Chief Justice Artemio V. Panganiban, as an independent member, Mr. Roberto R. Romulo, Mr. Benny S. Santoso, Mr. Orlando B. Veja, Mr. Christopher H. Young, Mr. Oscar S. Reyes and Mr. Washington Z. Sycip. The Advisory Committee provides guidance and suggestions, as necessary, on matters deliberated upon during Board meetings.

To assist in the performance of the Board's responsibilities and aid in ensuring compliance with the principles of good corporate governance, our Board is supported by four standing committees namely, the Audit Committee, the Governance and Nomination Committee (GNC), the Executive Compensation Committee (ECC) and the Technology Strategy Committee (TSC). All of the members of the Audit Committee are independent

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<sup>1</sup>Only newly appointed director Hideaki Ozaki, who assumed his post on December 6, 2011, has yet to attend a corporate governance training. However, as a pre-requisite to his appointment, Mr. Ozaki has executed an undertaking to attend a corporate governance seminar.

directors while majority of the voting members of the Governance and Nomination, and Executive Compensation Committees are independent directors.

All the Board Committees have their respective charters that have been approved by the Board. The charters set the general objectives, define the functions, establish the composition, and outline the procedures of the said Committees. These charters were amended in 2010 in order to align each Board Committee's purposes to those established in the CG Manual. Furthermore, sections in the CG Manual pertaining to the: independence criteria for independent directors, qualifications for directorship, and grounds for disqualification from directorship, were incorporated as Annexes to the revised charters.

#### *Audit Committee*

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for: the integrity of PLDT's accounting and financial reporting principles and policies, and system of internal controls, including the integrity of PLDT's financial statements and the independent audit thereof; PLDT's compliance with legal and regulatory requirements; PLDT's assessment and management of enterprise risks; PLDT's audit process, and the performance of PLDT's internal audit organization and external auditor, including the external auditor's qualifications and independence. The Audit Committee is composed of three independent directors, and four advisors. Each of the members of the Audit Committee is financially literate and one of the advisors is a certified public accountant with financial management expertise. The revised charter of the Audit Committee may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Audit%20Committee%20Charter.pdf>

The Audit Committee's activities with respect to the external auditor, Sycip, Gorres, Velayo & Co., or SGV & Co., included: discussions on the SGV & Co.'s report on the results of the integrated audit of 2010 financial statements prepared in accordance with the PFRS and IFRS and of the internal controls over financial reporting, or ICFR, as well as the results of internal and external quality reviews required on SGV & Co.; review and approval of the engagements of SGV & Co. to conduct a special audit of Netgames Inc. and SAS 70 Type II audit of ePLDT's Vitro Data Center, to perform advisory services regarding sustainability reporting in relation to PLDT's preparation of a sustainability report for 2011, and to conduct a tax review of Pilipinas Global Network, Ltd. (PGN) in relation to PGN's international programming operations in the Middle East, Europe and the United States of America; evaluation of SGV & Co.'s performance for 2010, with the Audit Committee resolving to re-appoint SGV & Co. as PLDT's external auditors for year 2011; review of SGV & Co.'s integrated plan for the audit of the 2011 financial statements and review of the ICFR of PLDT and its subsidiaries; and discussion on SGV & Co.'s status report on the integrated audit of the 2011 financial statements and ICFR.

With respect to the internal audit organization, the Audit Committee reviewed and noted or approved the Internal Audit and Fraud Risk Management Group's (IAFRMG) performance report for 2010, PLDT's internal audit plan for 2011 (original and updated), the revised PLDT Internal Charter (subsequently endorsed to and approved by the Board), and the IAFRMG head's confirmation of the organizational independence of the PLDT internal audit organization. It discussed the periodic status reports submitted by internal audit regarding the PLDT Group's Sarbanes-Oxley – Section 404 (SOX 404) compliance readiness as of year-end 2010 and as of year-end 2011, the major internal audit and fraud risk management activities and accomplishments and updates regarding the internal audit organization.

Insofar as financial reporting and controls are concerned, the Audit Committee, together with PLDT Finance Officers and the external auditor, reviewed PLDT's audited financial statements for 2010 prepared in accordance with PFRS and IFRS and the final results and report of SGV & Co.'s integrated audit of 2010 PFRS and IFRS financial statements and ICFR. It also reviewed with Finance Officers PLDT's unaudited consolidated financial results and reports for the first quarter of 2011, the six months ended June 30, 2011, and the nine months ended September 30, 2011.

The Audit Committee also reviewed and approved the following: Fourth quarter 2010 report (SEC Form 17-C) with PFRS consolidated financial statements; 2010 PLDT-Parent Annual Report to the National Telecommunications Commission (NTC), 2010 PLDT-Parent BIR Financial Statements; and PLDT Group's Annual Report in Form 17-A (for Philippine filing) and Form 20-F (for U.S. filing).

Relative to governance, general internal controls and risk management, the Audit Committee reviewed the status report on whistleblowing complaints submitted by the Corporate Governance Office and discussed with the General Counsel the status of PLDT's compliance with applicable laws and updates on significant legal matters. The Audit Committee had discussions with the relevant business and operational units on matters concerning information and business systems, tax management and regulatory developments. It also conferred with the Enterprise Risk Management Officer regarding PLDT Group's enterprise risk management processes and activities, including identified risks and responses for 2011.

The Audit Committee had eight (8) meetings for the year 2011 and a total of Php3.60 million was paid as *per diem* to its members and advisors who attended the said meetings.

#### *Governance and Nomination Committee*

The primary purposes of the GNC are to: oversee the development and implementation of corporate governance principles and policies; review and evaluate the qualifications of the persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board; identify persons believed to be qualified to become members of the Board and/or the Board Committees; assist the Board in making an assessment of the Board's effectiveness in the process of replacing or appointing new members of the Board and/or Board Committees; and assist the Board in developing and implementing the Board's performance evaluation process. The GNC is composed of five voting members, three of whom are independent directors and the other two are non-executive directors. The GNC also has three non-voting members composed of an independent member of the Advisory Committee, the Human Resources Group Head and the Chief Governance Officer of the Company. The revised Charter of the GNC may be accessed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Governance%20and%20Nomination%20Committee%20Charter.pdf>

In the performance of its governance function, the GNC discussed and evaluated the results of the Board Assessment for 2010 and the GNC Evaluation/ Self-Assessment. The consolidated results of the Board Assessment, along with the GNC's recommended actions, the GNC Assessment results and Report on Activities for 2010 were submitted to and noted by the Board. The GNC also provided assistance to the Board in initiating the Board Performance Assessment for 2011.

In compliance with the requirement to conduct a periodic review of the CG Policies, the GNC reviewed and assessed the PLDT CG Manual, Expanded Whistleblowing Policy, Policy on Gifts, Entertainment and Sponsored Travel, and Supplier/Contractor Relations Policy. The review showed that these policies remain to be adequate and compliant and required no amendments. However, the GNC noted that certain guidelines were necessary to ensure conformance with newly-enacted legislation and regulations from both the Philippines and the United States. Measures were likewise approved by the GNC to enhance awareness of and compliance with these policies, particularly the Expanded Whistleblowing Policy, by PLDT's personnel. The GNC also reviewed and noted the conflict of interest disclosures of certain key personnel.

The GNC gave directives pertaining to proposed corporate governance-related rules and guidelines issued by regulators, as well as reports of corporate governance rating agencies and other organizations interested in corporate governance. It also determined the content of PLDT's annual corporate governance enhancement session for the PLDT Board and officers and selected the speaker/resource person for said session. It also selected the over-all theme for 2012 corporate governance communication materials.

In the performance of its nomination function, the GNC screened persons nominated as directors or independent directors and determined and recommended the final list of director/independent director nominees for election in the 2011 annual meeting of stockholders. It also screened nominees for appointment in the vacancies in the Board and the Advisory Board/Committee which arose during 2011. In screening the nominees, the GNC takes into account the nominee's ability to perform the roles of a director diligently and efficiently, the nominee's judgment, skills and experience with other business organizations of the size and complexity comparable to that of the Company, the interplay of a nominee's experience with the experience of other directors, and any conflict of interest.

The GNC also reviewed the composition of Board Committees and made the appropriate recommendations to ensure that the same are in conformity with applicable laws, rules and regulations. Furthermore, the GNC reviewed the list and qualifications of officers and recommended the re-appointment of said officers at the organizational meeting of the Board. Finally, it reviewed the qualifications and recommended the appointment of new hires and promotions to various officer ranks.

The GNC held five meetings in 2011 and a total of Php2.775 million was paid as *per diem* to its members who attended the said meetings.

#### *Executive Compensation Committee*

The primary purposes of the ECC are to: provide guidance and assistance to the Board with respect to the development of a compensation philosophy consistent with the culture, strategy and control environment of the Company; oversee the development and administration of PLDT's executive compensation programs; and assist the Board in the areas of performance evaluation, succession planning and the professional development programs for officers. The ECC is composed of five voting members, three of whom are independent directors, and the other two are non-executive directors. The ECC also has one non-voting member, who is the Human Resources Group Head of the Company. The revised Charter of the ECC may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Executive%20Compensation%20Committee%20Charter.pdf>

For its major accomplishments in 2011, the ECC discussed and approved the 2010 Variable Pay Payout corresponding to the level of core income target that was achieved and the 2011 Variable Pay Targets. It also discussed and approved the 2011 Merit Increase of officers and executives and directed that increases for officers and executives and the application of compensation policies discussed and approved by the ECC should be the same for PLDT, Smart and SPi Global. Finally, the ECC discussed and approved the increase in *per diem* for board members of the fixed line subsidiaries.

The ECC held two meetings in 2011 and a total of Php750,000.00 was paid as *per diem* to its members who attended the said meetings.

#### *Technology Strategy Committee*

The primary purpose of the TSC is to assist the Board to review and approve the strategic vision for the role of technology in PLDT's overall business strategy; fulfill its oversight responsibilities for PLDT's effective execution of its technology-related strategies; and ensure the optimized use and contribution of technology to PLDT's strategic objectives and growth targets. The TSC is composed of six voting members and one non-voting member. Under the revised TSC charter, at least one member of the TSC must have at least a general knowledge or understanding of the technologies relevant to PLDT's line of business. A copy of the revised Charter of the TSC may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Technology%20Strategy%20Committee%20Charter.pdf>

The TSC had one meeting in 2011 wherein the network and technology teams presented and discussed with the TSC a comprehensive update on the PLDT Technology Roadmap, possible synergies with Digitel and Sun Cellular, and developments regarding new technologies affecting PLDT's competitiveness and efficiency. A total of Php525,000.00 was paid as *per diem* to its members who attended the said meeting.

#### *Independent Audit*

The Company has an internal audit system which provides a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control, and governance processes.

The internal audit organization is led by the Chief Audit Officer/Internal Audit Head who functionally reports to the Audit Committee and administratively to the President and CEO. It is responsible for conducting, in

accordance with the *International Standards for the Professional Practice of Internal Auditing*, internal audit activities which include, among others, the evaluation of the adequacy and effectiveness of controls covering PLDT's financial reporting, governance, operations and information systems.

The Company also has an independent external auditor duly accredited by the Philippine SEC. Its duty is to undertake an independent audit and provide objective assurance on the manner by which PLDT's financial statements have been prepared and presented. The Audit Committee selects and appoints the external auditor and reviews and approves all audit and non-audit services to be performed by the external auditor and all fees to be paid for such services.

The external auditor, or the lead audit partner primarily responsible for the audit of PLDT's financial statements, is rotated at least once every five years or such shorter or longer period provided under applicable laws and regulations<sup>1</sup>. In addition, PLDT's Personnel Manual generally prohibits the hiring of former employees of PLDT's independent auditing firm or members of the audit team assigned to perform audit services for the Company.

#### *Chief Governance Officer and Corporate Governance Office*

PLDT has an independent Corporate Governance Office, under the leadership of a Chief Governance Officer who reports to the Chairman of the Board and the GNC. The primary responsibilities of the Chief Governance Officer include monitoring compliance with the provisions and requirements of corporate governance laws, rules and regulations, reporting violations and recommending the imposition of disciplinary actions, and adopting measures to prevent the repetition of such violations. The Corporate Governance Office is responsible as well for the continuing development, drafting, issuance and review of appropriate corporate governance policies, attending to reports received through the whistleblowing facility, addressing queries and providing opinions or guidance on corporate governance matters to operating units, initiating enforcement actions to ensure compliance with corporate governance policies, and maintaining a corporate governance education and communication program that sees to the development of the proper knowledge, skills, attitudes and habits that would promote voluntary observance of corporate governance policies.

#### *Regulatory Compliance*

On January 27, 2012, our CG Officer, submitted to the Philippine SEC our annual certification confirming that PLDT's CG Manual, as revised and adopted on March 26, 2010 conforms with the provisions of the Philippine SEC Memorandum No. 6, Series of 2009 (the Revised Code of Corporate Governance), as well as contains other leading practices and principles on good corporate governance. The Certification also states that in 2011 the Company did not deviate from the provisions of its CG Manual, as well as from the provisions of the Revised Code of Corporate Governance as adopted in the PLDT CG Manual.

The said certification was based on the annual evaluation conducted by PLDT's President and Chief Executive Officer, Treasurer and Chief Financial Officer and CG Officer of our Company's compliance with the CG Manual. In making such evaluation, said officers used our Board-approved corporate governance self-rating form which has been patterned after a similar form that was issued by the Philippine SEC under SEC Memorandum Circular No. 5, Series of 2003, dated April 3, 2003.

Through the CGO, PLDT has complied with SEC Memorandum Circular No. 12, Series of 2009, dated August 18, 2009, by accomplishing and submitting the Corporate Governance Scorecard for Publicly-listed Companies. PLDT's 2010 Corporate Governance Scorecard was submitted to the ICD and the Philippine SEC on November 25, 2011.

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<sup>1</sup>Per Item 2.7(C) PLDT CG Manual, and Item 1.7, PLDT Revised Charter of the Audit Committee.



## **B. Policies and Implementation**

PLDT's corporate governance principles, structures and processes are established and articulated in two fundamental policies: the CG Manual and the Code of Ethics. These policies are benchmarked against global best practices in corporate governance, yet are applicable and responsive to PLDT's particular context.

### *CG Manual*

The PLDT CG Manual was approved and adopted by our Board on March 26, 2010 pursuant to SEC Memorandum Circular No. 6 Series of 2009 or the Revised Code of Corporate Governance. It supersedes the CG Manual approved and adopted on September 24, 2002, as amended on March 30, 2004 and January 30, 2007. The structures and processes set forth in the CG Manual, as well as the Articles of Incorporation and By-Laws, combined with PLDT's commitment to the principles of transparency, accountability, fairness and integrity, form PLDT's basic framework of governance by which our Board, officers, executives and employees strive to achieve PLDT's strategic objectives, create value for all its stakeholders, and sustain its long-term viability.

In compliance with the Revised Code of Corporate Governance and consistent with the relevant provisions of the Securities Regulation Code and Corporation Code of the Philippines, our CG Manual covers the following key areas:

- the composition of the Board, as well as the qualifications and grounds for disqualification for directorship;
- the requirement that at least 20% of the membership of the Board of Directors, and in no case less than two members, must be independent directors and the standards/criteria for the determination of independent directors;
- the duties and responsibilities of the Board and the individual directors;
- the manner of conduct of Board meetings including the requirement to have an independent director present in every meeting to promote transparency and the need to have an executive session for non-executive and independent directors;
- establishment of board committees, specifically, the Audit Committee, ECC and GNC including the composition and the principal duties and responsibilities of such committees, as well as the requirement for each Board Committee to have its own charter;
- the role of the Chairman as the leader of the Board and as the prime mover in ensuring compliance with, and the performance of, corporate governance policies and practices;
- the role of the President/Chief Executive Officer in ensuring that PLDT's business affairs are managed in a sound and prudent manner and that operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;
- the duties and responsibilities of the Corporate Secretary/Assistant Corporate Secretary in terms of the support services that they need to provide the Board in upholding sound corporate governance;
- the duties and responsibilities of the head of internal audit organization that would provide the Board, management and shareholders with reasonable assurance that PLDT's key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;
- the functions of the independent auditor that would reasonably ensure an environment of sound corporate governance as reflected in PLDT's financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of financial statements;
- the requirement to appoint a CG Officer and the duties and responsibilities of such CG Officer including the establishment of an evaluation system to determine and measure compliance with the provisions of the CG Manual;
- the duty of the Board to promote and uphold stockholders' rights such as the right to vote, pre-emptive right, the right to inspect corporate books and records, right to timely receive relevant information, right to dividends, and the appraisal right;
- the requirement for the Board to explore and implement steps to reduce excessive or unnecessary costs that impede stockholders' participation and to act with transparency and fairness at the annual and special stockholders' meetings;

- PLDT's undertaking to disclose material information promptly and accurately as well as the imposition of reasonable rules regarding the treatment and handling of material non-public information; and
- the establishment of an appropriate evaluation system for purposes of monitoring and assessing compliance with the CG Manual and other applicable laws and administrative issuances.

### *Code of Ethics*

The Code of Ethics was adopted to strengthen the implementation of the CG Manual. Approved by our Board on March 30, 2004 and subsequently updated on July 11, 2006, the Code of Ethics sets out PLDT's business principles and values, which aim to promote a culture of good corporate governance. It provides standards that govern and guide all business relationships of PLDT, its directors, officers and employees, especially with respect to the following:

- compliance with applicable laws, rules and regulations;
- ethical handling of conflicts of interest, corporate opportunities and confidential information;
- protection and proper use of company assets;
- fair dealing with employees, customers, service providers, suppliers, and competitors;
- compliance with reporting and disclosure obligations to the relevant regulators and to investors;
- compliance with disclosure and financial reporting controls and procedures;
- assessment and management of risks involved in business endeavors; and
- adoption of international best practices of good corporate governance in the conduct of PLDT's business.

The Code of Ethics undergoes a mandatory review process every two years. The latest review was in October 2010. The review revealed that the Code is appropriate for the Company and compliant with the applicable laws, regulations and listing standards and that no revision was needed at that time. The GNC approved the results of the review on November 2010.

### *Other policies*

The Company also has enabling policies adopted by our Board to provide specific guidelines on the provisions of the Code of Ethics.

- Conflict of Interest Policy approved on October 24, 2005.* This Policy aims to ensure that work-related actions of our directors, officers, employees and consultants are based on sound business principles and judgment devoid of bias or partiality. It enjoins those concerned to be aware of the possibility of such bias and partiality in dealings with various entities or individuals in the course of or in relation to their work. The policy likewise mandates those who find themselves in a possible conflict of interest situation should promptly disclose the matter to the relevant authorities. If warranted, those concerned should also obtain appropriate approvals and inhibit themselves from any action, transaction or decision involving an existing or potential conflict of interest.
- Policy on Gifts, Entertainment and Sponsored Travel approved on January 31, 2006.* This policy provides safeguards so that the custom of giving gifts is handled in accordance with the principles of integrity, accountability, fairness and transparency. It aims to prevent the occurrence of situations or actions that could significantly affect objective, independent or effective performance of one's duties. Specifically, it prohibits the solicitation of gifts, sponsored travel, and entertainment from third parties. Receipt and acceptance of gifts voluntarily given by such third parties are handled according to this policy as well.
- Supplier/Contractor Relations Policy approved on January 31, 2006.* This Policy seeks to ensure that the Company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services. The policy seeks to maintain PLDT's reputation for equal opportunity and honest treatment of suppliers in all business transactions. The policy establishes clear rules for arm's length transactions and fair treatment of prospective and existing suppliers with the objective of always obtaining the best value for the Company.
- Policy on Employee Disclosure on Violations of the Corporate Governance Rules, or CG Rules, Questionable Accounting or Auditing Matters, and Offenses covered by PLDT's Table of Penalties (or the Expanded Whistleblowing Policy) approved on May 9, 2006.* This policy provides guidelines on

handling employee disclosure or complaints of violation of rules pertaining to the aforesaid matters, protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint.

Detailed implementing guidelines have likewise been issued for these policies to ensure their wide observance. All these policies and rules, collectively, the CG Rules are periodically reviewed to ensure that they are appropriate for PLDT, keep pace with comparable and applicable global best practices, and are compliant with the requirements of the Philippine and U.S. SEC, NYSE and Hong Kong Stock Exchange corporate governance rules, as may be appropriate and applicable. The policies in (b), (c), and (d) above were the subject of a mandatory review in 2011 through the GNC and it was found that these require no amendments at this time.

To access the Code of Ethics, CG Manual or information on how our corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11 differ, please refer to:

[http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT\\_Code\\_of\\_Business\\_Conduct\\_and\\_Ethics.pdf](http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT_Code_of_Business_Conduct_and_Ethics.pdf)

[http://www.pldt.com.ph/governance/about/Documents/22336f71c88c495793d15575c2addffcpldtcorpgov\\_manual.pdf](http://www.pldt.com.ph/governance/about/Documents/22336f71c88c495793d15575c2addffcpldtcorpgov_manual.pdf)

<http://www.pldt.com.ph/governance/about/Documents/f7933d17962d4b2c942e50ba4980f21bpldtdisclosure.pdf>

Our subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies similar in substance and form to PLDT's CG Rules, as well as appointed their respective corporate governance officers.

Pursuant to the Conflict of Interest Policy, PLDT officers, executives and employees are required to submit Conflict of Interest Disclosures. If a transaction is affected by conflict of interest, it is subject to approval by the appropriate approving authorities and the conflicted director, officer, executive or employee is prohibited from participating in any activity related to the said transaction. PLDT is progressively institutionalizing the practice of timely and transparent disclosures down to the level of rank and file employees. Our suppliers, vendors and contractors are also required to make disclosures with respect to relationships and affiliations that they or their personnel may have with any of our directors, officers, executives, and employees.

With respect to the Expanded Whistleblowing Policy, PLDT maintains a Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. All employees and stakeholders who come forward in good faith, regardless of rank or status, to report any of the violations described in said policy or any act that may be considered as contrary to PLDT's values of accountability, integrity, fairness and transparency may submit a complaint or disclosure on such violations. Upon receipt by the Chief Governance Officer or the Corporate Governance Office of a complaint/disclosure, a preliminary evaluation is conducted to determine the appropriate investigating unit to which the case shall be assigned for further action. The Corporate Governance Office monitors the cases reported and ensures appropriate reporting to the Audit Committee, GNC, or any other relevant committee or body on the results of the investigations and the prompt referrals of findings to the units concerned. PLDT's committees on officer or employee discipline, as the case may be, are responsible for evaluating and approving the appropriate disciplinary action against erring officers and employees. In all processes and activities related to a whistleblowing complaint or disclosure, utmost confidentiality is observed in order to ensure the integrity of the process and/or protect the parties or offices who are allegedly involved.

In line with all of these, PLDT has incorporated corporate governance standards in performance evaluation of personnel and has included corporate governance policy violations as a cause for disqualification in incentives and rewards in its Policy on Employee Qualification for Incentives and Rewards.

To make sure that relations between the Company and its business partners are imbued with shared standards on good corporate governance, the Company has developed written corporate governance guidelines for suppliers and contractors to which PLDT's suppliers and contractors are expected to consent in writing, thereby ensuring that they understand and accept these standards as indispensable in doing business with PLDT. The Company also conducts suppliers'/contractors' briefings and communicates to its business partners, including suppliers, PLDT's commitment to, as well as expectations on, good corporate governance.

### C. Education and Enhancements

PLDT's corporate governance education and communication activities aim to reach reinforce our aspiration to establish the right culture and promote the right behavior.

As part of its education and communication program, PLDT provides continuous training for its Board and senior management. PLDT has organized and conducted five corporate governance enhancement sessions since 2007 and has invited internationally-known experts to share their insights and interact with PLDT's Board and senior management.

PLDT conducted its 2011 corporate governance enhancement session for its Board on December 8. The resource person was Mr. Steven John Priest, founder of the Ethical Leadership Group and Senior Advisor to Global Compliance Services, Inc. of Charlotte, North Carolina, USA. Mr. Priest conducted an interactive discussion on the topic *Performance, Principles and People*. The session discussed board responsibilities particularly in the areas of governance and compliance risks, culture and leadership. Importance was also given to recent developments in global legislation and regulations, as well as emerging best practices on governance, ethics and compliance, with focus on directors' qualifications and independence, executive compensation, and succession planning. All of the PLDT directors, except one newly-appointed director, have attended at least one corporate governance enhancement session.

Mr. Priest also conducted a briefing for PLDT's senior management on December 7, 2011. The discussion was also on the topic of *Performance, Principles and People* but this time delved on the environment that businesses face nowadays, the risks that confront them, the appropriate culture that companies need to adopt and establish, and the leadership demanded from people in positions of responsibility. Forty six out of the 61 active PLDT officers attended the session. All in all, 57 out of the 61 active members of PLDT's senior management have attended at least one corporate governance enhancement session.

PLDT also pays close attention to the educational needs of its middle management. In 2011, a special session for its executives was conducted through Mr. Keith Darcy, Executive Director of the Ethics and Compliance Officer Association (ECO) based in Waltham, Massachusetts, USA. Mr. Darcy discussed *The Role of Middle Management in Ethical Culture Building*. Sixty-one (61) executives and officers of PLDT attended the session. On the other hand, newly promoted and hired executives are required to undergo a half-day workshop on Ethical Decision Making as part of their competency development as managers. The highly interactive course provides personnel in the middle manager category an opportunity to discuss and develop approaches to ethical dilemmas that confront them at the workplace.

For its supervisory and rank and file employees, PLDT conducted a *Corporate Governance Refresher Course* for selected divisions. A total of eight (8) refresher sessions were conducted for the Information Systems Sector<sup>1</sup>. The whole day seminar, entitled *Educational Intervention on Ethical Compliance and Procurement Management*, was a joint effort of the Corporate Governance Office together with the Procurement Management and Vendor Management Divisions of the Supply Chain, Asset Protection and Management Group.

PLDT also carried out a seminar especially developed for field service personnel entitled *Values at Work*. The module shows how the values of accountability, integrity, fairness and transparency can be employed as effective tools in the performance of duties and functions in the Company. The workshop at the same time seeks to affirm the participants' commitment to PLDT's core values.

Finally, PLDT requires newly-hired employees and executives to undergo a *Corporate Governance Orientation*.

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<sup>1</sup>Executives of this sector also went through the refresher course.

Apart from face to face training, PLDT has on-line training modules for its employees. PLDT executives with the rank of manager, senior manager and assistant vice president have complied with the requirement to access and complete an online training course on the PLDT *Expanded Whistleblowing Policy*. Supervisory and Rank and File employees, on the other hand, have taken and completed a module on the *PLDT Conflict of Interest Policy*<sup>1</sup>.

Education and training is supplemented by the production and dissemination of relevant corporate governance communication materials as follows:

- a. Thematic posters and calendars – In 2011, PLDT the theme was *Values Instilled in Us as Children* which encouraged all company personnel to recall how they learned the values of accountability, integrity, fairness and transparency as children and to re-apply these values in their professional and personal lives.
- b. *Ripples* e-newsletter – This is a monthly newsletter distributed by email and also accessible through the PLDT CG Website which features stories, news and developments that seek to inspire observance of PLDT's corporate governance values.
- c. *Corporate Governance Newsbriefs* – These contain summaries of news articles from global on-line sources and are released weekly to PLDT directors and selected PLDT officers and executives.
- d. Periodic Advisories on corporate governance policies – The latest advisory, which was released in December 2011, pertained to the ethical handling and treatment of gifts during and beyond the Christmas gift-giving season.

PLDT maintains its active membership with the US-based Ethics and Compliance Officer Association, or ECOA, the largest association of ethics and compliance professionals in the world. PLDT is a sponsoring partner-member of the ECOA. PLDT regularly attends and participates in ECOA activities, particularly the Annual Ethics and Compliance Conference<sup>2</sup>. Our membership at the ECOA gives us access to its vast online library on CG and related topics, opportunities to interact with other corporate governance and ethics professionals around the world, and benchmark our governance practices against those of leading companies. Atty. Elmer Nitura, Corporate Governance Officer of Smart Communications Inc., is on the second year of his three-year term as a member of the ECOA's Board of Directors. Atty. Nitura is one of only three non-Americans in the ECOA Board and is the only one from Asia.

PLDT is a founding member of the Good Governance Advocates and Practitioners of the Philippines (GGAPP). GGAPP is an organization of corporate governance and ethics and compliance officers from various companies in the Philippines and conducts regular monthly meetings to discuss collective efforts aimed at improving corporate governance practices in the Philippines. Finally, PLDT regularly attends activities organized by the ICD such as Breakfast Roundtables and corporate governance working sessions.

#### **D. Recognition and Awards**

In 2011, PLDT was elevated to the status of a "Platinum Awardee" in the Corporate Governance Scorecard of the ICD. This is a special award given to companies that have achieved the Gold Awardee status for three consecutive years<sup>3</sup>. PLDT has consistently been one of the top five companies in the ICD Corporate Governance Scorecard since it started in 2005. In 2011 Finance Asia Magazine, rated PLDT Best in Corporate Governance in the Philippines. The magazine also conferred the following awards on PLDT: Best Managed Company, Best in Investor Relations, (Company) Most Committed to a Strong Dividend Policy, and Best Chief Executive in the person of Mr. Napoleon L. Nazareno. Finance Asia rated PLDT's Corporate Social Responsibility efforts as third best in the Philippines. Corporate Governance Asia Magazine also listed PLDT as Corporate Governance Awardee in its Recognition Award for 2011.

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<sup>1</sup> Compliance with both online modules is at more than 99% of the target learners as of the end of 2011.

<sup>2</sup> The latest conference was held in September 20-23, 2010 at Seattle, Washington State, USA.

<sup>3</sup> Gold Awardees are companies that obtain a rating of 95% or more in the ICD Corporate Governance Scorecard.

These awards are echoed by *Asia Money Magazine* which ranked PLDT as the best over-all for corporate governance in the Philippines. PLDT was also cited as the best for disclosure and transparency, best for management and the board of directors, and shareholder rights and equitable treatment in the Philippines. PLDT was also best for investor relations, sharing the award with two other companies.

### ***Enterprise Risk Management***

In 2011, the Group Enterprise Risk Management Department, or GRMD, continued the implementation of the PLDT Group's standard risk management process in critical operational units, specifically in the network and administration and materials management divisions of both PLDT and Smart.

A risk assessment exercise was also undertaken with the Joint Executive Committee to identify and prioritize the most important risks affecting the Group. The result of the assessment showed that market dynamics remained the top priority risk for 2012, while a new risk, vendor-related issued, was ranked tenth.

## **PART V – EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

#### **Exhibits**

Not applicable.

#### **Reports on SEC Form 17-C (Current Reports)**

We reported the following items on SEC Form 17-C during the last two quarters of 2011:

<b>Items Reported</b>	<b>Date Filed</b>
1. (a) Resignation of Mr. Tatsu Kono as director (b) Election of Mr. Setsuya Kimura as director (c) Appointment of Mr. Setsuya Kimura as a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees, and as advisor of the Audit Committee (d) Approval of the amendments to the Seventh Article of the Articles of Incorporation (e) Calling of a special meeting of stockholders on September 20, 2011 and setting of July 2, 2011 as record date for such meeting (f) Cash dividend declaration – Series A, I, R, W, AA and BB 10% Cumulative Convertible Preferred Stock (g) Confirmation of appointment of Albert Mitchell L. Locsin as vice president	July 5, 2011
2. Correction to the disclosure letter filed on July 5, 2011 re: the total number of Non-Voting Serial Preferred Stock	July 6, 2011
3. Reply to a letter of PSE requesting information on the terms and features of PLDT's Voting Preferred Stock and Non-Voting Serial Preferred Stock	July 8, 2011
4. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT asks SC to reconsider ruling on foreign ownership in public utilities" posted in <i>philSTAR.com</i> on July 17, 2011	July 18, 2011
5. Notice of Investor's Briefing to be held on August 2, 2011 re: First Half 2011 Financial and Operating Results of PLDT	July 19, 2011
6. Press release entitled "PLDT and JGS extend closing anew"	August 1, 2011
7. Press release re: Company's unaudited consolidated financial results for the six months ended June 30, 2011	August 2, 2011
8. Cash dividend declaration – Common Stock, Series IV Cumulative Convertible Redeemable Preferred Stock and Series B, F, Q, V and Z 10% Cumulative Convertible Preferred Stock	August 2, 2011
9. Amended press release re: Company's unaudited consolidated financial results for the six months ended June 30, 2011	August 2, 2011
10. Submission of Certification of Independent Director executed by Fr. Bienvenido F. Nebres	August 15, 2011
11. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "MVP threatens to junk deal" published in the August 19, 2011 issue of the <i>Business Mirror (internet edition)</i>	August 19, 2011
12. Purchase of ePLDT, Inc., of an additional 17% stake in ePDS, Inc.	August 26, 2011
13. Update on investment in Digitel	August 26, 2011
14. Cancellation of Special Meeting of Stockholders	September 20, 2011
15. Cash dividend declaration – Series E, K, O, U, C, D, J, T and X 10% Cumulative Convertible Preferred Stock	September 20, 2011
16. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT to buy flag-carrier" published in the September 22, 2011 issue of <i>The Manila Times</i>	September 22, 2011
17. Redemption of all outstanding shares of the Company's Series A to FF 10% Cumulative Convertible Preferred Stock	September 26, 2011
18. Letter to PSE requesting for the stop trading of the shares of 10% Cumulative Convertible Preferred Stock effective October 5, 2011	October 4, 2011
19. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT to give up excess frequency" published in the October 17, 2011 issue of <i>The Manila Times</i>	October 17, 2011
20. Notice of Investors Briefing to discuss the Company's third quarter results	October 19, 2011


Items Reported	Date Filed
21. Submission of Notice of Redemption with Annexes in connection with the redemption of the Company's SIP shares	October 21, 2011
22. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "NTC sets condition" published in the October 24, 2011 issue of <i>The Philippine Star</i>	October 24, 2011
23. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT to issue Php50-B notes for capex, loan refinancing" published in the October 26, 2011 issue of <i>The Philippine Star</i>	October 26, 2011
24. Press release entitled "PLDT Completes Acquisition of Digitel in Landmark Telco"	October 26, 2011
25. Disclosure re: Order issued by NTC approving the Application jointly filed by PLDT and Digitel	October 26, 2011
26. Reply to a letter of PSE requesting clarification/confirmation of a news article entitled "PLDT expects modest lift from Digitel" published in the October 28, 2011 issue of <i>The Manila Times</i>	October 28, 2011
27. Press release issued by Fitch Ratings entitled "Fitch Upgrades PLDT's Long-Term Local Currency IDR; Stable Outlook"	October 28, 2011
28. Press release entitled "PLDT to issue Php5 Billion in Fixed Rate Notes"	November 2, 2011
29. Press release re: Company's unaudited consolidated financial results for the nine months ended September 30, 2011	November 3, 2011
30. (a) Resignation of Mr. Oscar S. Reyes as a director of PLDT (b) Appointment of Mr. Oscar S. Reyes as a member of the Advisory Board/Committee (c) Election of James L. Go as a director or PLDT (d) Appointment of James L. Go as a member of the Technology Strategy Committee (e) Cash dividend declaration – Series G, N, P and S 10% Cumulative Convertible Preferred Stock	November 3, 2011
31. SPi's acquisition of Laserwords Private Limited from the Murugappa Group of Companies	November 4, 2011
32. Listing of additional 27,679,210 common shares re: Digitel acquisition	November 14, 2011
33. Amended General Information Sheet of PLDT as of November 14, 2011	November 22, 2011
34. Press release issued by Fitch Ratings entitled "Fitch Affirms PLDT's ratings; Outlook Stable"	December 1, 2011
35. (a) Resignation of Mr. Takashi Ooi as a director (b) Election of Mr. Hideaki Ozaki as a director (c) Promotions of Messrs. Ernesto R. Alberto and Alejandro O. Caeg (d) Confirmation of appointment of Messrs. Isaias Ariel P. Fermin and Noel Lorenzana (e) Notice of Conversion/Exchange of Bonds and Subscription to Increase in Authorized Capital Stock of Digitel (f) Cash dividend declaration – Series H, L, M and Y 10% Cumulative Convertible Preferred Stock (g) Final cash dividend declaration – Series A to FF 10% Cumulative Convertible Preferred Stock	December 6, 2011
36. Update on reorganization of ownership structure of customer relationship management and business process outsourcing businesses	December 14, 2011

**SIGNATURES**

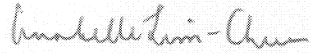
Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines, this annual report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on March 22, 2012.

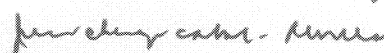
**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
Registrant

By:

  
NAPOLEON L. NAZARENO  
 Principal Executive Officer and  
 Principal Operating Officer


  
MA. LOURDES C. RAUSA-CHAN  
 Corporate Secretary

  
ANABELLE LIM-CHUA  
 Principal Financial Officer and Treasurer

  
JUNE CHERYL A. CABAL-REVILLA  
 Principal Accounting Officer and Controller

SUBSCRIBED AND SWORN to before me this MAR 27 2012 day of \_\_\_\_\_ 2012, affiants exhibiting to me their Passports, as follows:

<u>Name</u>	<u>Passport No.</u>	<u>Date of Expiry</u>	<u>Place of Issue</u>
Napoleon L. Nazareno	EB0161908	April 27, 2015	DFA, Manila
Ma. Lourdes C. Rausa-Chan	EB3934720	October 23, 2016	DFA, Manila
Anabelle Lim-Chua	EB0080269	April 8, 2015	DFA, Manila
June Cheryl A. Cabal-Revilla	XX4264300	July 29, 2014	DFA, Manila

  
RUBEN V. TEJADA  
 Notary Public for the City of Makati  
 Notary Public until December 31, 2012  
 Notarial Appointment No. M-71  
 PTR No. 3180384-01/05/2012-Makati City  
 IBP Lifetime Roll No. 02364-05/09/2001  
 Roll of Attorneys No. 40957  
 9/F MGO Bldg. Legaspi St. Legaspi VIII. Makati City M

Doc. No. 68;  
 Page No. 15;  
 Book No. XX;  
 Series of 2012.



**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**SEC FORM 17-A**

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\* These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in PLDT’s consolidated financial statements or the notes to consolidated financial statements.



March 6, 2012

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

We are responsible for the preparation and fair presentation of the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries (the PLDT Group) as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., a member practice of the Ernst & Young Global, the independent auditors appointed by our Audit Committee, has audited our consolidated financial statements as at December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011 in accordance with Philippine Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit, in their report to our Stockholders and our Board of Directors dated March 6, 2012.

Signature of Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman of the Board

Signature of Napoleon L. Nazareno
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature of Anabelle L. Chua
ANABELLE L. CHUA
Senior Vice President and Treasurer

Signature of June Cheryl A. Cabal-Revilla
JUNE CHERYL A. CABAL-REVILLA
First Vice President and Controller

SUBSCRIBED AND SWORN to before me this 27th day of March 2012 affiants exhibiting to me their Passport, as follows:

Table with 4 columns: Name, Passport No., Date of Expiry, Place of Issue. Rows include Manuel V. Pangilinan, Napoleon L. Nazareno, Anabelle L. Chua, and June Cheryl A. Cabal-Revilla.

Doc. No. 65 ;
Page No. 14 ;
Book No. XIX ;
Series of 2012.

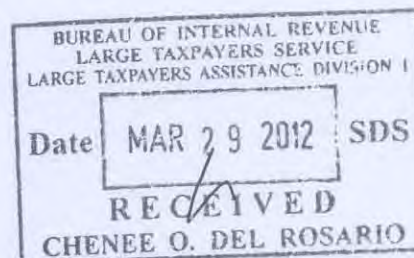
RUBEN V. TEJADA
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Roll of Attorneys No. 40957
MGO Bldg. Legaspi St. Legaspi Vill. Makati City MM

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION 1
Date MAR 29 2012 SDS
RECEIVED
CHENE E. DEL ROSARIO



## INDEPENDENT AUDITORS' REPORT

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



We have audited the accompanying consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

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

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

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





**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Marydith C. Miguel*

Marydith C. Miguel

Partner

CPA Certificate No. 65556

SEC Accreditation No. 0087-AR-2 (Group A),

March 4, 2010, valid until March 3, 2013

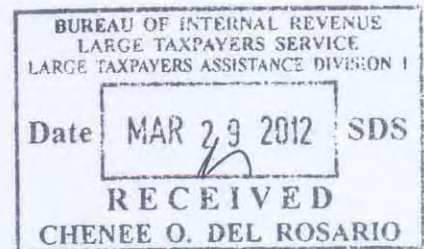
Tax Identification No. 102-092-270

BIR Accreditation No. 08-001998-55-2009,

June 1, 2009, valid until May 31, 2012

PTR No. 3174812, January 2, 2012, Makati City

March 6, 2012



**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

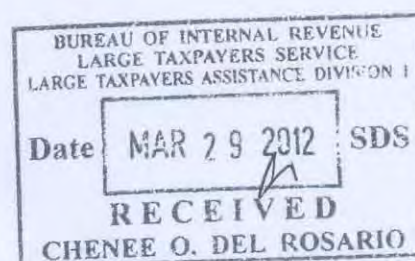
**As at December 31, 2011 and 2010**

**(in million pesos, except par value per share amounts and number of shares)**

	2011	2010
<b>ASSETS</b>		
<b>Noncurrent Assets</b>		
Property, plant and equipment (Notes 3, 5, 9, 12, 20 and 27)	197,731	163,184
Investments in associates and joint ventures (Notes 3, 4, 5, 10, 24 and 27)	17,865	23,203
Available-for-sale financial assets (Notes 6, 10 and 27)	7,181	147
Investment in debt securities – net of current portion (Notes 11 and 27)	150	484
Investment properties (Notes 3, 6, 9, 12 and 27)	1,115	1,560
Goodwill and intangible assets (Notes 3, 4, 5, 14, 21 and 27)	80,656	11,485
Deferred income tax assets – net (Notes 3, 4, 7 and 27)	5,975	6,110
Derivative financial assets (Note 27)	–	178
Prepayments – net of current portion (Notes 3, 5, 18, 25 and 27)	8,869	8,679
Advances and other noncurrent assets – net of current portion (Note 27)	1,340	1,187
<b>Total Noncurrent Assets</b>	<b>320,882</b>	<b>216,217</b>
<b>Current Assets</b>		
Cash and cash equivalents (Notes 15 and 27)	46,057	36,678
Short-term investments (Note 27)	558	669
Trade and other receivables (Notes 3, 5, 16, 18, 24 and 27)	16,245	16,428
Inventories and supplies (Notes 3, 4, 5, 17 and 27)	3,827	2,219
Derivative financial assets (Note 27)	366	5
Current portion of investment in debt securities (Notes 11 and 27)	358	–
Current portion of prepayments (Notes 18 and 27)	7,227	5,418
Current portion of advances and other noncurrent assets (Note 27)	126	181
<b>Total Current Assets</b>	<b>74,764</b>	<b>61,598</b>
<b>TOTAL ASSETS</b>	<b>395,646</b>	<b>277,815</b>

**EQUITY AND LIABILITIES**

<b>Equity</b>		
Preferred stock, Php10 par value per share, authorized - 822,500,000 shares; issued and outstanding - 441,912,370 shares as at December 31, 2011 and 441,887,387 shares as at December 31, 2010 (Notes 8, 19 and 27)	4,419	4,419
Common stock, Php5 par value per share, authorized - 234,000,000 shares; issued - 217,160,444 shares and outstanding - 214,436,333 shares as at December 31, 2011; and issued - 189,480,549 shares and outstanding - 186,756,438 shares as at December 31, 2010 (Notes 8, 19 and 27)	1,085	947
Treasury stock - 2,724,111 shares as at December 31, 2011 and 2010 (Notes 8, 19 and 27)	(6,505)	(6,505)
Capital in excess of par value	127,246	62,890
Retained earnings (Note 19)	26,232	36,594
Other comprehensive income (Note 6)	(644)	(1,276)
<b>Total Equity Attributable to Equity Holders of PLDT</b>	<b>151,833</b>	<b>97,069</b>
Noncontrolling interests (Note 6)	386	316
<b>TOTAL EQUITY</b>	<b>152,219</b>	<b>97,385</b>





**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

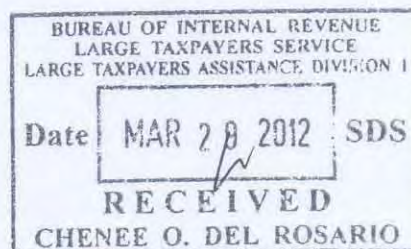
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)**

**As at December 31, 2011 and 2010**

**(in million pesos, except par value per share amounts and number of shares)**

	2011	2010
<b>Noncurrent Liabilities</b>		
Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23 and 27)	91,280	75,888
Deferred income tax liabilities – net (Notes 3, 4, 7 and 27)	2,902	1,099
Derivative financial liabilities (Note 27)	2,235	3,604
Pension and other employee benefits (Notes 3, 5, 23, 25 and 27)	609	1,834
Customers' deposits (Note 27)	2,272	2,223
Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 21, 23, 27 and 28)	22,642	13,567
<b>Total Noncurrent Liabilities</b>	<b>121,940</b>	<b>98,215</b>
<b>Current Liabilities</b>		
Accounts payable (Notes 22, 24, 26 and 27)	29,554	25,804
Accrued expenses and other current liabilities (Notes 3, 10, 14, 20, 21, 23, 24, 25, 26 and 27)	58,271	35,959
Derivative financial liabilities (Note 27)	924	–
Provision for claims and assessments (Notes 3, 26 and 27)	1,555	1,555
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23 and 27)	26,009	13,801
Dividends payable (Notes 19 and 27)	2,583	2,086
Income tax payable (Notes 7 and 27)	2,591	3,010
<b>Total Current Liabilities</b>	<b>121,487</b>	<b>82,215</b>
<b>TOTAL LIABILITIES</b>	<b>243,427</b>	<b>180,430</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>395,646</b>	<b>277,815</b>

*See accompanying Notes to Consolidated Financial Statements.*

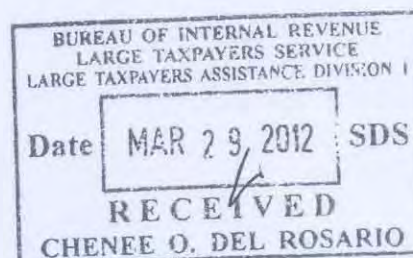


**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENTS**  
**For the Years Ended December 31, 2011, 2010 and 2009**  
**(in million pesos, except earnings per common share amounts)**

	2011	2010	2009
	(As Restated – Note 2)		
<b>REVENUES</b>			
Service revenues (Notes 2, 3 and 4)	153,958	156,170	159,597
Non-service revenues (Notes 3, 4 and 5)	2,645	2,217	2,426
	<b>156,603</b>	<b>158,387</b>	<b>162,023</b>
<b>EXPENSES</b>			
Depreciation and amortization (Notes 3, 4 and 9)	27,957	26,277	25,607
Compensation and employee benefits (Notes 3, 5 and 25)	20,151	24,070	23,100
Interconnection costs (Note 2)	12,586	13,928	14,030
Repairs and maintenance (Notes 12, 17 and 24)	10,391	9,434	8,631
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	10,209	2,438	5,061
Selling and promotions	7,847	5,284	5,749
Professional and other contracted services (Note 24)	5,668	4,853	4,361
Cost of sales (Notes 5, 17 and 24)	5,443	4,771	5,432
Rent (Notes 3 and 27)	4,162	3,970	4,055
Taxes and licenses (Note 26)	3,597	2,571	2,881
Communication, training and travel	1,946	1,832	1,902
Insurance and security services (Note 24)	1,384	1,252	1,264
Amortization of intangible assets (Notes 3, 4 and 14)	264	388	368
Other expenses (Note 24)	1,777	1,763	1,700
	<b>113,382</b>	<b>102,831</b>	<b>104,141</b>
	<b>43,221</b>	<b>55,556</b>	<b>57,882</b>
<b>OTHER INCOME (EXPENSES)</b>			
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	2,035	1,408	2
Interest income (Notes 4, 5, 11 and 15)	1,372	1,200	1,539
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	197	(1,741)	(1,006)
Foreign exchange gains (losses) – net (Notes 4, 9 and 27)	(744)	1,807	909
Financing costs – net (Notes 4, 5, 9, 20 and 27)	(6,491)	(6,698)	(6,556)
Other income (Notes 4 and 18)	3,087	2,153	2,069
	<b>(544)</b>	<b>(1,871)</b>	<b>(3,043)</b>
<b>INCOME BEFORE INCOME TAX</b> (Note 4)	<b>42,677</b>	<b>53,685</b>	<b>54,839</b>
<b>PROVISION FOR INCOME TAX</b> (Notes 3, 4 and 7)	<b>11,040</b>	<b>13,426</b>	<b>14,744</b>
<b>NET INCOME</b> (Note 4)	<b>31,637</b>	<b>40,259</b>	<b>40,095</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of PLDT (Notes 4 and 8)	31,697	40,217	39,781
Noncontrolling interests (Notes 4 and 8)	(60)	42	314
	<b>31,637</b>	<b>40,259</b>	<b>40,095</b>
<b>Earnings Per Share Attributable to Common Equity Holders of PLDT</b> (Note 8)			
Basic	163.24	212.85	210.38
Diluted	163.10	212.85	210.36

See accompanying Notes to Consolidated Financial Statements.





**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

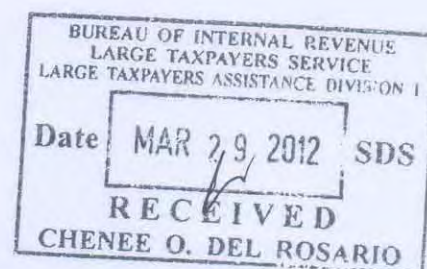
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the Years Ended December 31, 2011, 2010 and 2009**

**(in million pesos)**

	2011	2010	2009
<b>NET INCOME</b> (Note 4)	<b>31,637</b>	<b>40,259</b>	<b>40,095</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 6)			
Foreign currency translation differences of subsidiaries	624	(761)	(657)
Net fair value gains on cash flow hedges	14	-	-
Net gains on available-for-sale financial assets (Note 10):	3	22	3
Gains from changes in fair value recognized during the year	3	23	3
Income tax related to fair value adjustments charged directly to equity	-	(4)	-
Losses removed from other comprehensive income taken to income	-	3	-
Revaluation increment on investment properties:	-	314	-
Revaluation increment of property, plant and equipment transferred to investment properties during the year	-	449	-
Income tax related to revaluation of increment charged directly to equity	-	(135)	-
Total Other Comprehensive Income (Loss)	641	(425)	(654)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>32,278</b>	<b>39,834</b>	<b>39,441</b>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of PLDT	32,329	39,958	39,142
Noncontrolling interests	(51)	(124)	299
	<b>32,278</b>	<b>39,834</b>	<b>39,441</b>

*See accompanying Notes to Consolidated Financial Statements.*





PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

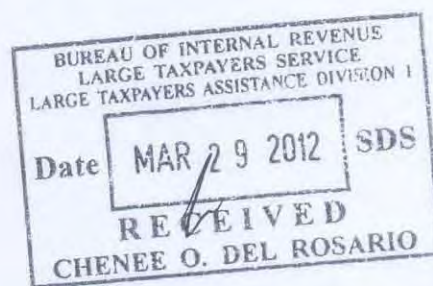
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2011, 2010 and 2009

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Stock Options Issued	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2009	4,415	947	(4,973)	6	68,337	37,177	(378)	105,531	1,438	106,969
Total comprehensive income:	-	-	-	-	-	39,781	(639)	39,142	299	39,441
Net income (Notes 4 and 8)	-	-	-	-	-	39,781	-	39,781	314	40,095
Other comprehensive loss (Note 6)	-	-	-	-	-	-	(639)	(639)	(15)	(654)
Cash dividends (Note 19)	-	-	-	-	-	(39,214)	-	(39,214)	(436)	(39,650)
Issuance of capital stock – net of conversion (Note 19)	1	-	-	-	11	-	-	12	-	12
Exercised option shares	-	-	-	(6)	21	-	-	15	-	15
Acquisition of treasury stocks (Notes 2, 8, 19 and 27)	-	-	(1,432)	-	-	-	-	(1,432)	-	(1,432)
Acquisition of noncontrolling interest in a subsidiary (Note 2)	-	-	-	-	(5,479)	-	-	(5,479)	(751)	(6,230)
<b>Balances as at December 31, 2009</b>	<b>4,416</b>	<b>947</b>	<b>(6,405)</b>	<b>-</b>	<b>62,890</b>	<b>37,744</b>	<b>(1,017)</b>	<b>98,575</b>	<b>550</b>	<b>99,125</b>
Balances as at January 1, 2010	4,416	947	(6,405)	-	62,890	37,744	(1,017)	98,575	550	99,125
Total comprehensive income:	-	-	-	-	-	40,217	(259)	39,958	(124)	39,834
Net income (Notes 4 and 8)	-	-	-	-	-	40,217	-	40,217	42	40,259
Other comprehensive loss (Note 6)	-	-	-	-	-	-	(259)	(259)	(166)	(425)
Cash dividends (Note 19)	-	-	-	-	-	(41,367)	-	(41,367)	(50)	(41,417)
Issuance of capital stock – net of conversion (Note 19)	3	-	-	-	-	-	-	3	-	3
Acquisition of treasury stocks (Notes 2, 8, 19 and 27)	-	-	(100)	-	-	-	-	(100)	-	(100)
Others	-	-	-	-	-	-	-	-	(60)	(60)
<b>Balances as at December 31, 2010</b>	<b>4,419</b>	<b>947</b>	<b>(6,505)</b>	<b>-</b>	<b>62,890</b>	<b>36,594</b>	<b>(1,276)</b>	<b>97,069</b>	<b>316</b>	<b>97,385</b>
Balances as at January 1, 2011	4,419	947	(6,505)	-	62,890	36,594	(1,276)	97,069	316	97,385
Total comprehensive income:	-	-	-	-	-	31,697	632	32,329	(51)	32,278
Net income (Notes 4 and 8)	-	-	-	-	-	31,697	-	31,697	(60)	31,637
Other comprehensive income (Note 6)	-	-	-	-	-	-	632	632	9	641
Cash dividends (Note 19)	-	-	-	-	-	(42,059)	-	(42,059)	(8)	(42,067)
Issuance of capital stock – net of conversion (Note 19)	-	138	-	-	64,356	-	-	64,494	-	64,494
Business combinations and others (Notes 2 and 13)	-	-	-	-	-	-	-	-	129	129
<b>Balances as at December 31, 2011</b>	<b>4,419</b>	<b>1,085</b>	<b>(6,505)</b>	<b>-</b>	<b>127,246</b>	<b>26,232</b>	<b>(644)</b>	<b>151,833</b>	<b>386</b>	<b>152,219</b>

See accompanying Notes to Consolidated Financial Statements.

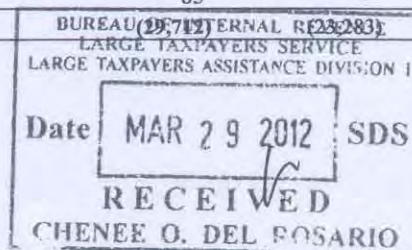




**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2011, 2010 and 2009**  
**(in million pesos)**

	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax (Note 4)	42,677	53,685	54,839
Adjustments for:			
Depreciation and amortization (Notes 3, 4 and 9)	27,957	26,277	25,607
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	10,209	2,438	5,061
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)	5,312	5,471	5,317
Accretion on financial liabilities – net (Notes 5, 20 and 27)	1,062	1,177	1,062
Foreign exchange losses (gains) – net (Notes 4, 9 and 27)	744	(1,807)	(909)
Amortization of intangible assets (Notes 3 and 14)	264	388	368
Incentive plans (Notes 3, 5 and 25)	38	1,392	1,833
Pension benefit costs (income) (Notes 3, 5 and 25)	(38)	236	1,306
Gains on disposal of property, plant and equipment (Note 9)	(172)	(913)	(127)
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	(197)	1,741	1,006
Interest income (Notes 4, 5 and 15)	(1,372)	(1,200)	(1,539)
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	(2,035)	(1,408)	(2)
Others	(1,961)	(352)	(802)
Operating income before changes in assets and liabilities	82,488	87,125	93,020
Decrease (increase) in:			
Trade and other receivables	2,064	(3,132)	(1,324)
Inventories and supplies	(1,017)	89	(305)
Prepayments	(539)	(146)	(1,333)
Advances and other noncurrent assets	51	(15)	271
Increase (decrease) in:			
Accounts payable	904	6,407	130
Accrued expenses and other current liabilities	7,011	3,722	8,227
Pension and other employee benefits	(236)	(4,603)	(9,071)
Customers' deposits	45	57	32
Other noncurrent liabilities	12	50	(46)
Net cash generated from operations	90,783	89,554	89,601
Income taxes paid	(11,574)	(12,294)	(15,215)
Net cash provided by operating activities	79,209	77,260	74,386
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	1,359	1,165	1,352
Dividends received (Note 10)	520	534	360
Proceeds from:			
Disposal of investments in associates (Note 10)	15,136	–	–
Cash acquired – net of payment for purchase of investment (Note 13)	1,928	–	–
Disposal of property, plant and equipment (Note 9)	523	859	932
Maturity of short-term investments	315	6,256	9,728
Disposal of investments in subsidiaries (Note 2)	218	–	–
Disposal of investment properties (Note 12)	1	89	18
Disposal of investments held-for-sale	1	10	–
Redemption of investment in debt securities	–	409	4,005
Payments for:			
Acquisition of intangibles (Note 14)	(2)	(13)	(21)
Purchase of investments in associates (Note 10)	(155)	–	(18,070)
Purchase of short-term investments	(246)	(3,114)	(6,838)
Purchase of subsidiaries – net of cash acquired (Note 13)	(977)	(188)	(8,989)
Contingent consideration arising from business combinations (Note 23)	(1,910)	–	–
Acquisition of available-for-sale financial assets (Note 10)	(15,179)	(2)	–
Purchase of investment in debt securities	–	(403)	(3,572)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27)	(648)	(710)	(691)
Additions to property, plant and equipment (Notes 4 and 9)	(30,559)	(28,056)	(27,378)
Decrease (increase) in advances and other noncurrent assets	(122)	(119)	112
Decrease (increase) in notes receivable	85	–	(80)
Net cash used in investing activities	(19,712)	(23,283)	(49,132)



**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**

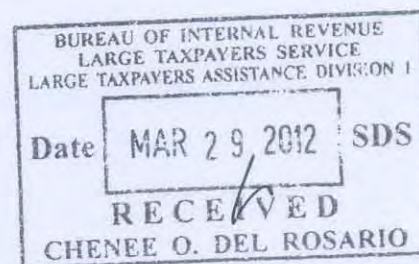
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

**(in million pesos)**

	2011	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of long-term debt (Note 20)	17,464	7,246	41,989
Availments of long-term financing for capital expenditures	7,803	3,777	7,993
Proceeds from notes payable (Note 20)	2,136	-	2,000
Proceeds from issuance of capital stock	2	3	18
Payments of obligations under finance leases	(33)	(29)	(24)
Payments of debt issuance costs (Note 20)	(42)	(111)	(173)
Payments of notes payable (Note 20)	(390)	(2,274)	(270)
Settlements of derivative financial instruments (Note 27)	(632)	(1,095)	(1,913)
Settlements of long-term financing for capital expenditures	(4,923)	(3,702)	(4,678)
Payments of interest – net of capitalized portion (Notes 5, 20 and 27)	(5,325)	(5,580)	(5,239)
Payments of long-term debt (Note 20)	(14,666)	(12,371)	(18,958)
Payments of cash dividends (Note 19)	(41,598)	(41,080)	(39,286)
Payments for acquisition of treasury shares (Notes 8, 19 and 27)	-	(106)	(1,752)
Net cash used in financing activities	<b>(40,204)</b>	<b>(55,322)</b>	<b>(20,293)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	86	(296)	(326)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,379</b>	<b>(1,641)</b>	<b>4,635</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>36,678</b>	<b>38,319</b>	<b>33,684</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>46,057</b>	<b>36,678</b>	<b>38,319</b>

*See accompanying Notes to Consolidated Financial Statements.*





# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT's outstanding common stock as at December 31, 2010. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2010.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGS, and certain other seller-parties, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010 (the "Enterprise Assets"). As payment for the Enterprise Assets, PLDT issued approximately 27.7 million common shares. PLDT granted consents to the sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2011, with the sale of those shares in November 2011, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO, together with NTT Communications Capital (UK) Ltd.) owned approximately 8%, 26% and 21% of PLDT's outstanding common shares, respectively. See *Note 13 – Business Combinations – PLDT's Acquisition of Digitel*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depository, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depository for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There are approximately 55 million ADSs outstanding as at December 31, 2011.

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

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

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

Our consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were approved and authorized for issuance by the Board of Directors on March 6, 2012, as reviewed and recommended for approval by the Audit Committee on March 5, 2012.

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

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

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

### Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at December 31, 2011 and 2010:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2011		2010	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
<b>Wireless</b>						
Smart:						
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Cellular mobile services	100.0	–	100.0	–
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	–	100.0	–	100.0
I-Contacts Corporation, or I-Contacts	Philippines	Internet broadband distribution services	–	100.0	–	100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Call center services	–	100.0	–	100.0
Wireless Card, Inc., or WCI	Philippines	Mobile applications development and services	–	100.0	–	100.0
Smarthub, Inc., or SHI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards	–	100.0	–	100.0
Smart Money Holdings Corporation, or SMHC:	Philippines	Software development and sale of maintenance and support services	–	100.0	–	100.0
Smart Money, Inc., or SMI	Cayman Islands	Investment company	–	100.0	–	100.0
Telecoms Solutions, Inc., or TSI <sup>(a)</sup>	Mauritius	Mobile commerce solutions marketing	–	100.0	–	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Mobile commerce platforms	–	–	–	100.0
PH Communications Holdings Corporation, or PHC	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	–	100.0	–	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	–	100.0	–	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	–	100.0	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider	–	100.0	–	100.0
Smarthub Pte. Ltd. (formerly SmartConnect Holdings Pte. Ltd.), or SHPL:	Singapore	Investment company	–	100.0	–	100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	–	100.0	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	–	85.0	–	85.0

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2011		2010	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Blue Ocean Wireless, or BOW <sup>(b)</sup>	Isle of Man	Delivery of GSM communication capability for the maritime sector	–	–	–	51.0
Telesat, Inc., or Telesat <sup>(c)</sup>	Philippines	Satellite communications services	100.0	–	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite <sup>(c)</sup>	Philippines	Satellite communications services	67.0	–	67.0	–
Digitel Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digitel <sup>(g)</sup>	Philippines	Cellular mobile services	–	70.2	–	–
<b>Fixed Line</b>						
ePLDT, Inc., or ePLDT <sup>(d)</sup>	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	100.0	–	100.0	–
ABM Global Solutions, Inc. (formerly BayanTrade, Inc.), or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	–	93.5	–	93.5
Digital Paradise, Inc., or Digital Paradise <sup>(e)</sup>	Philippines	Internet services	–	–	–	75.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0	–	50.0
netGames, Inc., or netGames	Philippines	Customer relationship management	–	57.5	–	57.5
Level Up!, Inc., or Level Up! <sup>(f)</sup>	Philippines	Publisher of online games	–	–	–	57.5
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	–	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	–	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0	–	100.0	–
Smart-NTT Multimedia, Inc., or SNMI <sup>(c)</sup>	Philippines	Data and network services	100.0	–	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	–	100.0	–
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.8	–	97.8	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0	–	75.0	–
Digitel <sup>(g)</sup>	Philippines	Telecommunications services	70.2	–	–	–
Digitel Capital Philippines Ltd., or DCPL	British Virgin Islands	Telecommunications services	–	70.2	–	–
Digitel Information Technology Services, Inc. or DITSI	Philippines	Internet services	–	70.2	–	–
Pilipinas Global Network Limited, or PGNL	British Virgin Islands	International distributor of Filipino channels and content	60.0	–	–	–
<b>BPO</b>						
SPi Global Holdings, Inc., or SPi Global <sup>(h)</sup>	Philippines	Investment company	100.0	–	–	100.0
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group <sup>(d)</sup>	Philippines	Knowledge processing solutions	–	100.0	–	100.0
SPi CRM, Inc., or SPi CRM, (formerly ePLDT Ventus, Inc.) <sup>(d)</sup>	Philippines	Customer relationship management	–	100.0	–	100.0
Infocom Technologies, Inc., or Infocom <sup>(d)</sup>	Philippines	Customer relationship management	–	99.6	–	99.6
<b>Others</b>						
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment holding company	–	99.5	–	99.5

<sup>(a)</sup> Dissolved on May 3, 2011.

<sup>(b)</sup> In June 2011, the management and operations of BOW were sold by SHPL to Stratos BV, a third party.

<sup>(c)</sup> Ceased commercial operations.

<sup>(d)</sup> On December 6, 2011, SPi, SPi CRM and Infocom were transferred by ePLDT to SPi Global to support PLDT's objective to grow the BPO segment.

<sup>(e)</sup> On April 1, 2011, ePLDT sold its entire 75% equity interest in Digital Paradise.

<sup>(f)</sup> On July 11, 2011, ePLDT sold its 57.5% interest in Level Up!.

<sup>(g)</sup> On October 26, 2011, PLDT acquired 51.6% equity interest in Digitel. On December 8, 2011 PLDT exercised the conversion option on convertible and exchangeable bonds issued by Digitel and DCPL, respectively, for an aggregate of 4 billion Digitel common shares, increasing PLDT's equity interest from 51.6% to 70.2%. At the end of the tender offer period on January 16, 2012, PLDT's equity interest in Digitel increased from 70.2% to 98%. The acquisition of 51.6% equity interest in Digitel and mandatory tender offer were accounted for as linked transactions, and the acquisition of Digitel was treated as if 100% equity interest were obtained up to end of tender offer period where the actual remaining noncontrolling interest is determined. See Note 13 – Business Combinations – PLDT's Acquisition of Digitel.

<sup>(h)</sup> On July 25, 2011, SPi Global was sold by ePLDT to PLDT and reclassified as a holding company for BPO segment. ePLDT and its remaining subsidiaries were folded to the fixed line business of PLDT. See discussion in Note 4 – Operating Segment Information.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases.

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

Noncontrolling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

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

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

#### ***Smart's Acquisition of Noncontrolling Interests in PCEV***

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, which was paid in cash on August 12, 2009, from PCEV's non-controlling shareholders up to approximately 840 million shares representing 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report with the Philippine SEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code, or SRC. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of PCEV's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stocks of PCEV. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of noncontrolling interests acquired of Php5,479 million presented as part of capital in excess of par value account.

#### ***PCEV's Common Stock***

PCEV's Board of Directors approved three share buyback programs during its meetings on November 3, 2008, March 2, 2009 and August 3, 2009. For all three programs, the buyback was done through the trading facilities of the PSE through open market purchases, block trades or other modes, subject to compliance with applicable laws, rules and regulations. The number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3, 2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. PCEV repurchased 2.8 million shares at a total cost of Php23 million in 2009 and 0.8 million shares at a total cost of Php7 million in 2010 under the program approved on August 3, 2009. As at December 31, 2011 and 2010, cumulative shares repurchased under the share buyback programs totaled 86.6 million at an aggregate cost of Php621 million.

The share buyback was accounted for as acquisition of noncontrolling interest and therefore an equity transaction wherein the difference between the consideration paid and proportionate carrying value is recognized as an adjustment to capital in excess of par.

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps as necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to purchase the shares owned by the remaining minority shareholders representing 0.49% of the outstanding common stock of PCEV, which Smart, as the owner of 99.51% of the outstanding common shares of PCEV, is expected to conduct.

The program approved on August 3, 2009 was terminated by PCEV's Board of Directors on March 5, 2012 in anticipation of the tender offer by Smart to PCEV's remaining minority shareholders.

### ***Dissolution of TSI***

On May 3, 2011, TSI was officially dissolved as a result of its voluntary application for insolvency. In a notice received from the Director of Insolvency Service, TSI has completely complied with the requirements of Section 151 (5) of the Insolvency Act of 2009. TSI was incorporated in Mauritius with principal activity of providing platform for mobile commerce.

### ***Smart's Sale of Investments in BOW***

In June 2011, the management and operations of BOW was transferred from SHPL to Stratos BV, a third party. Consequently, SHPL ceased to recognize BOW as its subsidiary.

### ***ePLDT's Sale of Investments in Digital Paradise and Level Up!***

As part of ePLDT's business realignment and continuing efforts to dispose its non-core businesses, ePLDT sold its entire 75% interest in Digital Paradise on April 1, 2011, which was followed by the sale of its 57.5% interest in Level Up! on July 11, 2011.

### ***ePLDT's Additional Investment in ePDS***

On August 24, 2011, ePLDT acquired an additional 17% of the equity interest of ePDS from Quantum Solutions International Pte. Ltd., or Quantum (formerly G3 Worldwide ASPAC), a private limited company, resulting in ePLDT's equity interest in ePDS increasing from 50% to 67%. See *Note 10 – Investment in Associates and Joint Ventures* and *Note 13 – Business Combinations – PLDT's Acquisition of ePDS*.

### ***SPi's Sale of Medical Transcription Business of SPi and SPi America Holdings***

On September 26, 2011, SPi and SPi America Holdings, a wholly-owned subsidiary of SPi, signed an Asset Purchase Agreement, or APA, with Acusis, LLC, a global provider of outsourced clinical documentation solutions based in Pittsburg, Pennsylvania, USA, for the sale of all assets and rights of every type and description which are related to or are used in the medical transcription business for a total consideration of US\$2.8 million, or Php121 million, subject to the terms and conditions specified in the APA. The sale generated a net gain of US\$2 million, or Php89 million.

The sale of investments in BOW, Digital Paradise, Level Up! and Medical transcription business of SPi and SPi America Holdings do not qualify as discontinued operations as these businesses do not represent a disposal of major line of business of PLDT Group.

### ***Divestment of CURE***

On October 26, 2011, Smart was directed by PLDT to divest CURE, its wholly-owned subsidiary, as one of the conditions to the NTC's approval of the acquisition of Digitel by PLDT. CURE was granted the right to use the 10 MHz of 3G frequency bandwidth in the 1955-1965 to 1955-2155 MHz spectrum, or the Affected Frequency, and operates the wireless business under the *Red Mobile* brand.

The NTC also approved in October 2011 the divestment plan presented by PLDT, which covers the following commitments:

- CURE will sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets. There will be a nine-month transition period to effect this first requirement; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, the Affected Frequency and related permits. The divestment sale will be conducted within six months after the end of the nine-month transition period and will be made under the supervision and control of the NTC.



The divestment of CURE related franchise and licenses qualifies as noncurrent assets held-for-sale but was no longer presented separately in our consolidated statement of financial position as the carrying amounts are not material.

### ***Reorganization of SPi Global***

On July 25, 2011, ePLDT sold its 100% equity interest in SPi Global to PLDT to serve as the new holding company for BPO business segment of the PLDT Group. Subsequently, on December 6, 2011, ePLDT also sold its 100% equity interest in SPi, SPi CRM and Infocom to SPi Global. The transaction was made at carrying values and has no impact in our consolidated financial statements. See discussion in *Note 4 – Operating Segment Information*.

### **Statement of Compliance**

Our consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

### **Change in the Presentation of our Outbound Revenues**

In 2011, we changed the presentation of our outbound revenues to gross amounts before charges billed to us, where applicable, by other carriers. In doing so, interconnection costs are then presented as a separate line item in the expense section of our consolidated income statements. Prior to 2011, we presented outbound revenues net of the share of other carriers. We made this change to present outbound revenues on a gross basis to more correctly present and align our consolidated income statement presentation with the predominant global practice in the telecommunications industry.

We accounted for the change retroactively and accordingly restated our comparative consolidated income statements. The change is for presentation only, and has no impact on our consolidated net income, earnings per share, cash flows and statements of financial position. The table below shows the affected line items in our financial information for the years ended December 31, 2010 and 2009.

	2010			2009		
	As restated	As previously presented	Change	As restated	As previously presented	Change
			(in million pesos)			
Revenues	158,387	144,459	13,928	162,023	147,993	14,030
Expenses	102,831	88,903	13,928	104,141	90,111	14,030
EBITDA margin <sup>(1)</sup>	54%	59%	(5%)	54%	59%	(5%)

<sup>(1)</sup> See discussion in *Note 4 – Operating Segment Information*.

### **Changes in Accounting Policies and Disclosures**

Our accounting policies are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to existing PFRSs and new interpretation as at January 1, 2011:

- *Amendment to Philippine Accounting Standard, or PAS, 24, Related Party Disclosures;*
- *Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues;*
- *Amendment to Philippine Interpretation International Financial Reporting Interpretations Committee, or IFRIC, 14, Prepayments of a Minimum Funding Requirement;*
- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments;* and
- *Improvements to PFRSs (2010).*

The changes introduced by such amendments, improvements and new interpretation are as follows:

**Amendment to PAS 24, Related Party Disclosures.** The standard has been amended to simplify the identification of related party relationship and re-balance the extent of disclosures of transactions between related parties based on the costs to preparers and the benefits to users in having this information available in the consolidated financial statements. Also, the amended standard provides a partial exemption from the disclosure requirements for government-related entities. The adoption of this amended standard did not have any impact on our current related party transaction disclosures.

**Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues.** The definition of a financial liability in the standard has been amended to classify right issues (and certain options or warrants) as equity instruments if: (a) the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments; and (b) the instruments are used to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of this amendment did not have any impact on our financial position or performance.

**Amendment to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement.** The interpretation has been amended to permit an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation. The adoption of this amendment did not have any impact on our financial position or performance.

**Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.** The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. The interpretation did not have any impact on our financial position or performance.

### **Improvements to PFRSs**

The Financial Reporting Standards Council approved during its meeting in May 2010 the adoption of Improvements to PFRSs, which were issued by the International Accounting Standards Board in May 2010. Improvements to PFRSs is an omnibus of amendments to standards that deal primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of the following amendments resulted in changes to our accounting policies but did not have any impact on our financial position or performance.

- **PFRS 3, Business Combinations.** The improvements include: (a) clarification that the amendments to *PFRS 7, Financial Instruments: Disclosures*, *PAS 32, Financial Instruments: Presentation*, and *PAS 39, Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of *PFRS 3* (as revised in 2008); (b) guidance that the choice of measuring noncontrolling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by PFRS; and (c) clarification that the application guidance in *PFRS 3* applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.
- **PFRS 7, Financial Instruments.** The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- **PAS 1, Presentation of Financial Statements.** The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- **PAS 27, Consolidated and Separate Financial Statements.** The improvement clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when PAS 27 is applied earlier.
- **PAS 34, Interim Financial Reporting.** The amendment provides guidance on how to apply disclosure principles in PAS 34 and add disclosure requirements around: (a) the circumstances likely to affect fair values of financial instruments and their classification; (b) transfers of financial instruments between different levels of the fair value hierarchy; (c) changes in classification of financial assets; and (d) changes in contingent liabilities and assets.
- **Philippine Interpretation IFRIC 13, Customer Loyalty Programmes.** The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes.

### **Significant Accounting Policies**

The following are the significant accounting policies applied by us in preparing our consolidated financial statements:

#### ***Business Combinations and Goodwill***

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

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

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

Goodwill is initially measured at cost being the excess of the consideration transferred and the amount recognized for noncontrolling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

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

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

### ***Investments in Associates***

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture.

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

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

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

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

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

### ***Investments in Joint Ventures***

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with those of PLDT Group.

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

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

### ***Foreign Currency Transactions and Translations***

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

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

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

The functional currency of SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and the functional currency of SHPL, SGP, 3rd Brand, and certain subsidiaries of AGS is the Singapore dollar. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries are recognized in our consolidated income statement.

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

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

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

### ***Noncurrent assets held-for-sale and discontinued operations***

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

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

Property, plant and equipment and intangible assets once classified as held-for-sale are not depreciated nor amortized.

### ***Financial Instruments – Initial recognition and subsequent measurement***

#### ***Financial Assets***

##### ***Initial recognition and measurement***

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

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

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

Our financial assets include cash and cash equivalents, short-term investments, trade and other receivables, quoted and unquoted equity and debt securities, advances and other noncurrent assets, and derivative financial assets.

##### ***Subsequent measurement***

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

##### ***Financial assets at FVPL***

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

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

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

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

#### *Loans and receivables*

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

#### *HTM investments*

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

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement. Interest earned on holding available-for-sale debt securities are included under "Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right of the payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months of the end of the reporting period.

## *Financial Liabilities*

### *Initial recognition and measurement*

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

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

Our financial liabilities include accounts payable, accrued expenses and other current liabilities, interest-bearing financial liabilities, customers' deposits, derivative financial liabilities, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account.

### *Subsequent measurement*

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

#### *Financial liabilities at FVPL*

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

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

#### *Other financial liabilities*

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

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

#### *Offsetting of financial instruments*

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



### *Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices or dealer price quotations at the close of business at the end of the reporting period without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 27 – Financial Assets and Liabilities*.

### *Amortized cost of financial instruments*

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

### *“Day 1” difference*

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

### ***Impairment of Financial Assets***

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

### *Financial assets carried at amortized cost*

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

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

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

#### *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgment. We treat “significant” generally as 20.0% or more of the original cost of investment, and “prolonged” as greater than 12 months. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

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

#### ***Derecognition of Financial Assets and Liabilities***

##### *Financial assets*

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

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

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

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

#### *Financial liabilities*

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

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

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

#### ***Derivative Financial Instruments and Hedge Accounting***

##### *Initial recognition and subsequent measurement*

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

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

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

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

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

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

#### *Fair value hedges*

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

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

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

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized in our consolidated statement of comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement.

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

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

#### *Hedges of a net investment in a foreign operation*

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

#### *Current versus noncurrent classification*

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

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

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

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

### ***Property, Plant and Equipment***

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in our consolidated income statement as incurred. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective assets if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

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

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

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

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

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

### ***Borrowing Costs***

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

### ***Asset Retirement Obligations***

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

### ***Investment Properties***

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the year in which they arise. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

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

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

### ***Intangible Assets***

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

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

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

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

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

### ***Inventories and Supplies***

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

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

### ***Impairment of Non-Financial Assets***

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

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

The following assets have specific characteristics for impairment testing:

#### ***Property, plant and equipment***

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

#### ***Goodwill***

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

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

#### ***Intangible assets***

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

in future periods.

#### *Investments in associates and joint ventures*

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

#### *Investment in Debt Securities*

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

#### *Cash and Cash Equivalents*

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

#### *Short-term Investments*

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

#### *Trade and Other Receivables*

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the EIR method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original EIR. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in our consolidated income statement.

When a trade and other receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in our consolidated income statement.

#### *Revenue Recognition*

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, and overseas communication tax, where applicable. We provide wireless communication, fixed line communication, and BPO services to our subscribers and customers. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service has occurred. In certain circumstances, revenue is split into separately identifiable components based on their relative fair value to reflect the substance of the transactions. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. Under certain arrangements where the above criteria are met, but there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service, and such amount is determined to be recoverable. We do not provide our customers with the right to a refund. The following specific recognition criteria must also be met before revenue is recognized:



## *Service Revenues*

### *Subscriptions*

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular services. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro-rata basis.

### *Air time, traffic and value-added services*

Prepaid service revenues collected in advance are deferred and recognized as revenue based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit and network usage are recognized in the year the traffic occurs. Revenues related to local, long distance, network-to-network and international call connection services are recognized when the call is placed or connection is provided. Charges billed to us by other carriers are presented as interconnection costs in our consolidated income statements. Revenues related to products and VAS are recognized upon delivery of the product or service, net of content providers share in revenue.

### *Knowledge processing solutions and customer relationship management*

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue are recorded as advances from customers and presented as a liability in our consolidated statement of financial position. If the fee is not measurable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

### *Incentives*

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction to revenues. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Our wireless segment operates two loyalty points programmes, one for *Smart Money* cardholders and another for subscribers of *Smart Gold*, *Smart Buddy* and *SmartBro*. The loyalty programme for *Smart Money* allows cardholders, upon enrollment, to accumulate points when they use their card for purchases, *Smart Load* payments, and reloads for Smart's prepaid cards, *SmartBro* prepaid Airtime and *Smart Money Cash Load*. The points for the programme can then be redeemed for airtime or load wallet. On the other hand, the loyalty programme for Smart's cellular and broadband subscribers allows postpaid subscribers to accumulate points for billed transactions and prepaid subscribers for reloads or top-ups and VAS, and international direct dialing usage and tenure in the network for both postpaid and prepaid subscribers. The points for the loyalty programme for the subscribers can then be redeemed, upon registration, for bill rebates, discounts on cellular phonekit purchases, on-network short messaging services or internet surf time. Redemption for both programmes are subject to a minimum number of points being required. Consideration received is allocated between the services sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued are deferred and recognized as revenue when the points are redeemed.

### *Non-service Revenues*

#### *Handset and equipment sales*

Sale of cellular handsets and communication equipment are recognized upon delivery to the customer.

#### *Interest income*

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

### *Expenses*

Expenses are recognized as incurred.

### *Provisions*

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

### *Retirement Benefits*

#### *Defined benefit pension plans*

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments, changes in actuarial assumptions and the effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds), net of past service cost and actuarial gains and losses not yet recognized, and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by long-term employee benefit fund and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service cost and actuarial gains and losses not yet recognized, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### *Defined contribution plans*

Smart and certain of its subsidiaries record expenses for their contribution to the defined contribution plans when the employee renders service to Smart and certain of its subsidiaries, essentially coinciding with their cash contributions to the plans.

### ***Other Long-term Employee Benefits***

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, interest cost, actuarial gains and losses and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

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

### ***Share-Based Payment Transactions***

#### *Cash-settled transactions*

Our 2007 to 2009 LTIP grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from our eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement for the year.

### ***Leases***

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

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

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

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

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

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

## *Income Taxes*

### *Current income tax*

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

### *Deferred income tax*

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

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

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

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

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

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

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

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

### ***Contingencies***

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

### ***Events After the End of the Reporting Period***

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

### ***Equity***

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

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

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

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

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

### **New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2011**

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

#### **Effective 2012**

***Amendments to PFRS 7, Disclosures – Transfers of Financial Assets.*** The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are applied prospectively and are applicable for annual periods beginning on or after July 1, 2011.

***Amendment to PAS 12, Income Taxes – Deferred Income Tax: Recovery of Underlying Assets.*** The amendment to *PAS 12* introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on the sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, an own use basis must be adopted. The amendment also introduces a presumption that recovery of the carrying amount of an asset will normally be through sale. This amendment is effective for annual periods beginning on or after January 1, 2012.

## Effective 2013

***Amendments to PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.*** These amendments require an entity to disclose information about rights of set off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or “similar arrangement”, irrespective of whether they are set off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information presented separately for financial assets and liabilities recognized at the end of the reporting period: (a) the gross amounts of those recognized financial assets and recognized financial liabilities; (b) the amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position; (c) the net amounts presented in the statement of financial position; (d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including: (i) amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and (ii) amounts related to financial collateral (including cash collateral); and (e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

***PFRS 10, Consolidated Financial Statements.*** PFRS 10 defines the principle of control and introduces a new approach to determining which investees should be consolidated in the consolidated financial statements. It further provides a single model to be applied in the control analysis for all investees and sets out the accounting requirements for the preparation of consolidated financial statements. PFRS 10 and PAS 27 (as amended in 2011) together will supersede PAS 27 (as amended in 2008) and *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013, with certain exceptions. Earlier adoption is permitted provided that PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (as revised in 2011) and PAS 28 (as revised in 2011), are applied simultaneously and with additional disclosure of the fact.

***PFRS 11, Joint Arrangements.*** PFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and elimination of proportionate consolidation method. PFRS 11 will supersede PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that PFRS 10, PFRS 12, PAS 27 (as revised in 2011) and PAS 28 (as revised in 2011) are applied simultaneously and with additional disclosure of the fact.

We are currently assessing the potential impact of adoption of PFRS 10 and PFRS 11 when these become effective beginning January 1, 2013.

***PFRS 12, Disclosure of Interests in Other Entities.*** PFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities that enables the users of the financial statements to evaluate: (a) the nature of, and risks associated with, the interests in other entities; and (b) the effects of those interests on the financial position, financial performance and cash flows. The standard also evaluate the: (i) nature and extent of significant restrictions on its ability to access or use assets and settle liabilities of the group; (ii) nature of, and changes in, the risks associated with its interests in consolidated structured entities; (iii) nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests; (iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests; (v) the consequences of changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control; and (vi) the consequences of losing control of a subsidiary during the reporting period.

PFRS 12 is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. We expect a more comprehensive disclosure about our interest in subsidiaries, joint arrangements, and associates upon adoption.

***PFRS 13, Fair Value Measurement.*** *PFRS 13* sets forth the definition of fair value as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date with an emphasis that fair value is a market-based measurement, not an entity-specific measurement. *PFRS 13* explains that a fair value measurement requires an entity to determine the following: (a) the particular asset or liability being measured; (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs that a market participant would use when pricing the asset or liability. *PFRS 13* is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

***Revised PAS 19, Employee Benefits.*** The revised standard removes the deferral mechanism for pension plans and prescribes that all changes in the value of defined benefit plans will be recognized as they occur. Those movements are recorded in profit or loss and other comprehensive income as follows: (a) service cost and a net interest income or expense will be recognized in profit or loss. The net interest income or expense is the product of the net balance sheet liability or asset and the discount rate used to measure the obligation — both as at the start of the year. This removes the current concept of expected return on plan assets — where income is credited with the expected long-term yield on the assets in the fund; and (b) “Remeasurements” will be recorded in other comprehensive income. These are all other movements in the balance sheet amount (essentially these are currently described as actuarial gains and losses and any effects of the restriction of a surplus to its recoverable amount). Other changes as a result of the revised standard include: (i) recognition of past service cost as expense when the plan amendments occur regardless of whether or not they are vested; and (ii) change in the basis for distinction between short-term and other long-term employee benefits to expected timing of settlement rather than employee entitlement. Changes in the carrying amount of liabilities for other long-term employment benefits will continue to be recognized in profit or loss. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognized only when the offer becomes legally binding and cannot be withdrawn. In the context of a wider restructuring, termination benefits are recognized at the same time as the other restructuring costs. These amendments are effective for annual periods beginning on or after January 1, 2013 and accounted for retrospectively. Earlier application is permitted. We are currently using the corridor approach in recognizing actuarial gains or losses. Upon adoption of revised *PAS 19*, unrecognized actuarial gains or losses will be recognized in full as part of other comprehensive income.

***Revised PAS 27, Separate Financial Statements.*** The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11 and PFRS 12*. The revised standard provides the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and requires an entity preparing separate financial statements to account for those investments at cost or in accordance with *PFRS 9, Financial Instruments: Classification and Measurement*. The standard is issued concurrently with *PFRS 10* and together, the two PFRSs will supersede *PAS 27* (as amended in 2008) and *SIC 12, Consolidation – Special Purpose Entities*. Revised *PAS 27* is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that *PFRS 10, PFRS 11, PFRS 12* and *PAS 28* (as revised in 2011) are applied simultaneously and with additional disclosure of the fact.

***Revised PAS 28, Investments in Associates and Joint Ventures.*** The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11 and PFRS 12*. The revised standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Equity method is defined in the revised standard as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor’s share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee. The revised standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard supersedes *PAS 28* (as amended in 2003). Revised *PAS 28* is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10, PFRS 11, PFRS 12* and *PAS 27* (as revised in 2011) are applied simultaneously and with additional disclosure of the fact.

**Amendments to PAS 1, Presentation of Financial Statements.** The amendments improve the consistency and clarity of presentation of items of other comprehensive income. The amendments require entities to present line items of amounts of other comprehensive income in the period to be classified by nature and be grouped into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and (b) will be reclassified subsequently to profit or loss when specific conditions are met. Other comprehensive income items that can be reclassified into profit or loss include: (i) foreign exchange gains and losses arising from translations of financial statements of foreign operations; and (ii) effective portion of gains and losses on hedging instruments in a cash flow hedge. While those items that cannot be reclassified into profit or loss include: (i) changes in the revaluation surplus; (ii) actuarial gains and losses on defined benefit plans; (iii) gains and losses from investment in equity instruments measured at fair value through other comprehensive income; and (iv) for those liabilities designated at FVPL, changes in fair value attributable to changes in the liability's credit risk. These amendments are effective for annual periods beginning July 1, 2012. Earlier application is permitted.

#### **Effective 2014**

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

#### **Effective 2015**

**PFRS 9, Financial Instruments: Classification and Measurement.** PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of our financial assets. We will quantify the effect on our consolidated financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

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

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

#### ***Judgments***

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

##### *Determination of functional currency*

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



The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for, SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka, which use the U.S. dollar. SHPL, SGP, 3rd Brand, and certain subsidiaries of AGS use the Singapore dollar as functional currency.

As a result of the internal reorganization within PLDT wherein BPO is now classified as an independent operating segment under SPi Global, management undertook a review of the functional currency exposures of SPi Global and certain of its subsidiaries. Based on management's assessment, SPi Global and SPi CRM's new currency exposures are now largely U.S. dollars. Based on the aforementioned consideration, which is set forth in *PAS 21*, SPi Global and SPi CRM commenced adopting U.S. dollars as its functional currency starting on December 6, 2011. See discussions in *Note 2 – Summary of Significant Accounting Policies* and *Note 4 – Operating Segment Information*.

#### *Leases*

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases amounted to Php4,162 million, Php3,970 million and Php4,055 million for the years ended December 31, 2011, 2010 and 2009, respectively. Total finance lease obligations amounted to Php14 million and Php43 million as at December 31, 2011 and 2010, respectively. See *Note 20 – Interest-bearing Financial Liabilities* and *Note 27 – Financial Assets and Liabilities*.

#### *PLDT's Acquisition of Digitel*

Our acquisition of 51.6% equity interest in Digitel and the mandatory tender offer were accounted for as linked transactions and as a single business combination due to the following: (a) the price per share offered to remaining noncontrolling interest is fixed and the same price as what we offered to acquire the controlling interest of JGS; (b) the remaining non-controlling shareholders of Digitel did not negotiate to receive the offer; (c) although the offer was initiated by PLDT, it stemmed from a regulatory requirement triggered by the acquisition of controlling interest in Digitel; and (d) the offer period is relatively short period of time.

As the acquisition of 51.6% equity interest and the mandatory tender offer were accounted for as linked transactions, we accounted for the business combination as if we have acquired 100% equity interest at the closing date of the transaction on October 26, 2011. A mandatory tender offer option liability is recognized and treated as part of consideration transferred in addition to the fair value of PLDT common shares issued to JGS. At the end of the tender offer period, the mandatory tender offer option liability is derecognized and corresponding settlement either in shares or in cash is recorded for those who opted for the mandatory tender offer. For the portion of mandatory tender offer option liability that expires unexercised, the mandatory tender offer option liability is derecognized and noncontrolling interest is set-up measured as of the date of acquisition. See *Note 13 – Business Combinations – PLDT's Acquisition of Digitel*.

#### *Estimates and Assumptions*

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

### *Asset impairment*

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

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

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

In 2011, we recognized an impairment loss of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program and have been identified for replacement. The impairment loss recognized represents the net book value of these network equipment and facilities. See *Note 9 – Property, Plant and Equipment*.

Total asset impairment on noncurrent assets amounted to Php8,517 million, Php1,496 million and Php2,337 million for the years ended December 31, 2011, 2010 and 2009, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses and Note 9 – Property, Plant and Equipment*.

The provisional goodwill from the acquisition of Laserwords Private Ltd., or Laserwords, ePDS and Digitel of Php849 million, Php26 million, and Php68,340 million, respectively, were not tested for impairment since there were no indicators of impairment identified. See *Note 13 – Business Combinations*.

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

### *Estimating useful lives of property, plant and equipment*

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded depreciation and amortization and decrease our property, plant and equipment.

The total depreciation and amortization of property, plant and equipment amounted to Php27,957 million, Php26,277 million and Php25,607 million for the years ended December 31, 2011, 2010 and 2009, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php197,731 million and Php163,184 million as at December 31, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information and Note 9 – Property, Plant and Equipment*.

### *Determining the fair value of investment properties*

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php26 million, Php6 million and Php352 million for the years ended December 31, 2011, 2010 and 2009, respectively. Total carrying values of our investment properties amounted to Php1,115 million and Php1,560 million as at December 31, 2011 and 2010, respectively. See *Note 12 – Investment Properties*.

### *Goodwill and intangible assets*

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

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

The total amortization of intangible assets amounted to Php264 million, Php388 million and Php368 million for the years ended December 31, 2011, 2010 and 2009, respectively. Total carrying values of goodwill and intangible assets amounted to Php80,656 million and Php11,485 million as at December 31, 2011 and 2010, respectively. See *Note 14 – Goodwill and Intangible Assets*.

### *Recognition of deferred income tax assets and liabilities*

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart's and Wolfpac's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php16,098 million and Php1,477 million as at December 31, 2011 and 2010, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php4,240 million and Php2,803 million as at December 31, 2011 and 2010, respectively. Total consolidated benefit from deferred income tax amounted to Php1,261 for the year ended December 31, 2011 and total consolidated provision for deferred income tax amounted to Php1,198 million and Php656 million for the years ended December 31, 2010 and 2009, respectively. Total consolidated net deferred income tax assets amounted to Php5,975 million and Php6,110 million as at December 31, 2011 and 2010, respectively, while total consolidated net deferred income tax liabilities amounted to Php2,902 million and Php1,099 million as at December 31, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

#### *Estimating allowance for doubtful accounts*

If we assessed that there is an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables recognized in our consolidated income statements amounted to Php1,549 million, Php834 million and Php2,335 million for the years ended December 31, 2011, 2010 and 2009, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php16,245 million and Php16,428 million as at December 31, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses*, *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

#### *Estimating net realizable value of inventories and supplies*

We write-down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php143 million, Php108 million and Php389 million for the years ended December 31, 2011, 2010 and 2009, respectively. The carrying values of inventories and supplies amounted to Php3,827 million and Php2,219 million as at December 31, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses* and *Note 17 – Inventories and Supplies*.

### *Share-based payment transactions*

Our 2007 to 2009 LTIP grants SARs to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement. The estimates and assumptions are described in *Note 25 – Share-based Payments and Employee Benefits* and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the 2007 to 2009 LTIP recognized as expense for the year ended December 31, 2009 amounted to Php1,833 million. As at December 31, 2009, outstanding 2007 to 2009 LTIP liability amounted to Php4,582 million, which was paid in full in April 2010. See *Note 5 – Income and Expenses*.

### *Estimation of pension benefit costs and other employee benefits*

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, expected rates of return on plan assets, rates of compensation increases and mortality rates. See *Note 25 – Share-based Payments and Employee Benefits*. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit income amounted to Php38 million for the year ended December 31, 2011 and total consolidated pension benefit costs amounted to Php236 million and Php1,306 million for the years ended December 31, 2010 and 2009, respectively. Unrecognized net actuarial gains amounted to Php2,886 million and Php479 million as at December 31, 2011 and 2010, respectively. The prepaid benefit costs amounted to Php5,654 million and Php5,333 million as at December 31, 2011 and 2010, respectively. The accrued benefit costs amounted to Php496 million and Php415 million as at December 31, 2011 and 2010, respectively. See *Note 5 – Income and Expenses*, *Note 18 – Prepayments* and *Note 25 – Share-based Payments and Employee Benefits*.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the Executive Compensation Committee, or ECC, and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for other employee benefits. All assumptions are reviewed on a monthly basis. Total outstanding liability and fair value of 2010 to 2012 LTIP cost as at and for the year ended December 31, 2010 amounted to Php1,392 million. Based on our latest projection, the profit targets for the covered Performance Cycle is no longer achievable, thus, accrued LTIP cost as at December 31, 2010 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. See *Note 5 – Income and Expenses* and *Note 25 – Share-based Payments and Employee Benefits*.

#### *Provision for asset retirement obligations*

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,107 million and Php1,344 million as at December 31, 2011 and 2010, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

#### *Provision for legal contingencies and tax assessments*

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 – Provisions and Contingencies*.

#### *Revenue recognition*

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

#### *Determination of fair values of financial assets and liabilities*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities amounted to Php72,002 million and Php216,443 million, respectively, as at December 31, 2011, while the total fair values of financial assets and liabilities amounted to Php55,538 million and Php167,396 million, respectively, as at December 31, 2010. See *Note 27 – Financial Assets and Liabilities*.

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#### 4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have four reportable operating segments, as follows:

- Wireless – wireless telecommunications services provided by Smart, CURE, and DMPI, which is the operator of the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel (PLDT acquired a controlling interest in Digitel on October 26, 2011 and through a series of transactions holds approximately 99.4% of the outstanding common stock of Digitel as at March 6, 2012); our cellular service providers; SBI and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;
- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 17% of our consolidated fixed line subscribers; information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT and AGS Group; netGames; and bills printing and other VAS-related services provided by ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% on August 24, 2011). ePLDT disposed of its 75% interest in Digital Paradise, a provider of internet access services on April 1, 2011 and disposed of its 57.51% interest in Level Up!, a publisher of online games on July 11, 2011;
- BPO – knowledge processing solutions provided by the SPi Group; and customer relationship management provided by SPi CRM and Infocom (ePLDT transferred the internet business of Infocom to PLDT on July 1, 2011); and
- Others – PCEV, an investment holding company.

See *Note 2 – Summary of Accounting Policies* and *Note 13 – Business Combinations* for further discussion.

The primary effects of the acquisition of the Digitel Group on our operating segments is the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand.

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the information and communications technology, or ICT business group, which provides data center services, internet and online gaming services and business solutions and applications, and which was subsequently incorporated into our fixed line business; and (ii) the BPO business group, which covers customer relationship management or call center operations under SPi CRM; and content solutions, medical billing and coding and medical transcription services under SPi.

With our objective to grow the BPO business segment, and for ePLDT to focus on its core business of IT infrastructure and services, our Board of Directors approved on July 5, 2011 to spin off SPi and SPi CRM from ePLDT and transfer the ownership of SPi Global to PLDT, and to place both SPi and SPi CRM under SPi Global. The reorganization was completed on December 6, 2011.

PCEV transferred its cellular business to Smart in August 2009 and acquired 223 million common shares, or about 20% equity interest, in Manila Electric Company, or Meralco, in March 2010. PCEV subsequently transferred to Beacon Electric Asset Holdings, Inc., or Beacon, in which PCEV acquired 50% equity interest effective March 31, 2010, 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment/holding company and reclassified PCEV from Wireless to Others business segment.

As at December 31, 2011, our chief operating decision maker views our business activities in four business units: Wireless, Fixed Line, BPO and Others, compared to three business units in 2010: Wireless, Fixed Line and ICT. The remaining ICT businesses, which did not form part of our BPO, were reclassified into our fixed line segment. We have retroactively implemented the above changes in our segment reporting and restated our comparative operating segment information accordingly.

The chief operating decision maker and management monitor the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income (loss) in the consolidated financial statements.

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses).

EBITDA margin is measured as EBITDA divided by service revenues for the year.

Core income for the year is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, is measured as core income divided by the weighted average number of common shares for the year. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares for the year.

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities are based on measurement principles that are similar to those used in measuring the assets and liabilities in the consolidated statement of financial position, which is in accordance with PFRS.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2011, 2010 and 2009 are as follows:

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
	(in million pesos)					
<b>December 31, 2011</b>						
<b>Revenues</b>						
External customers:	97,984	50,495	8,124	–	–	156,603
Service revenues (Note 3)	96,515	49,319	8,124	–	–	153,958
Non-service revenues (Notes 3 and 5)	1,469	1,176	–	–	–	2,645
Inter-segment transactions:	5,554	9,511	464	–	(15,529)	–
Service revenues (Note 3)	5,554	9,466	464	–	(15,484)	–
Non-service revenues (Notes 3 and 5)	–	45	–	–	(45)	–
Total revenues	103,538	60,006	8,588	–	(15,529)	156,603



	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
	(in million pesos)					
<b>Results</b>						
Depreciation and amortization (Notes 3 and 9)	14,295	13,244	418	–	–	27,957
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	9,197	1,003	9	–	–	10,209
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(115)	307	–	1,843	–	2,035
Interest income (Note 5)	677	590	15	90	–	1,372
Financing costs – net (Notes 5, 9, 20 and 27)	2,744	3,710	37	–	–	6,491
Provision for income tax (Notes 3 and 7)	8,429	2,491	118	2	–	11,040
Net income / Segment profit	22,366	6,302	984	1,985	–	31,637
EBITDA	55,393	22,675	1,558	(11)	344	79,959
EBITDA margin	54%	39%	18%	(100%)	–	52%
Core income	29,903	5,765	906	2,461	–	39,035
<b>Assets and liabilities</b>						
Operating assets	136,821	281,770	13,211	9,982	(69,978)	371,806
Investments in associates and joint ventures (Notes 3, 5, 10 and 27)	–	1,272	–	16,593	–	17,865
Deferred income tax assets – net (Notes 3, 7 and 27)	1,071	4,672	232	–	–	5,975
Consolidated total assets	137,892	287,714	13,443	26,575	(69,978)	395,646
Operating liabilities	133,344	190,569	3,277	754	(87,419)	240,525
Deferred income tax liabilities – net (Notes 3, 7 and 27)	1,158	1,363	107	–	274	2,902
Consolidated total liabilities	134,502	191,932	3,384	754	(87,145)	243,427
<b>Other segment information</b>						
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	17,152	13,654	400	1	–	31,207
<b>December 31, 2010</b>						
<b>Revenues<sup>(1)</sup></b>						
External customers:	100,490	50,324	7,573	–	–	158,387
Service revenues (Note 3)	99,133	49,464	7,573	–	–	156,170
Non-service revenues (Notes 3 and 5)	1,357	860	–	–	–	2,217
Inter-segment transactions:	4,891	9,834	539	–	(15,264)	–
Service revenues (Note 3)	4,891	9,661	539	–	(15,091)	–
Non-service revenues (Notes 3 and 5)	–	173	–	–	(173)	–
Total revenues	105,381	60,158	8,112	–	(15,264)	158,387
<b>Results</b>						
Depreciation and amortization (Notes 3 and 9)	13,243	12,638	396	–	–	26,277
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	824	596	1,018	–	–	2,438
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(7)	186	–	1,229	–	1,408
Interest income (Note 5)	551	499	20	147	(17)	1,200
Financing costs – net (Notes 5, 9, 20 and 27)	2,681	3,864	168	2	(17)	6,698
Provision for (benefit from) income tax (Notes 3 and 7)	11,413	2,076	(64)	1	–	13,426
Net income / Segment profit	34,025	5,145	(262)	1,351	–	40,259
EBITDA	58,964	23,047	1,270	(19)	455	83,717
EBITDA margin <sup>(1)</sup>	57%	39%	16%	(100%)	–	54%
Core income	33,352	5,845	765	2,066	–	42,028
<b>Assets and liabilities</b>						
Operating assets	109,253	213,058	11,487	2,599	(87,895)	248,502
Investments in associates and joint ventures (Notes 3, 5, 10 and 27)	104	928	–	22,171	–	23,203
Deferred income tax assets – net (Notes 3, 7 and 27)	41	6,058	11	–	–	6,110
Consolidated total assets	109,398	220,044	11,498	24,770	(87,895)	277,815
Operating liabilities	95,971	106,295	15,218	923	(39,076)	179,331
Deferred income tax liabilities – net (Notes 3, 7 and 27)	596	23	177	–	303	1,099
Consolidated total liabilities	96,567	106,318	15,395	923	(38,773)	180,430
<b>Other segment information</b>						
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	16,958	11,339	468	1	–	28,766
<b>December 31, 2009</b>						
<b>Revenues<sup>(1)</sup></b>						
External customers:	103,191	50,941	7,891	–	–	162,023
Service revenues (Note 3)	101,496	50,210	7,891	–	–	159,597
Non-service revenues (Notes 3 and 5)	1,695	731	–	–	–	2,426
Inter-segment transactions:	5,176	10,989	643	–	(16,808)	–
Service revenues (Note 3)	5,176	10,779	643	–	(16,598)	–
Non-service revenues (Notes 3 and 5)	–	210	–	–	(210)	–
Total revenues	108,367	61,930	8,534	–	(16,808)	162,023
<b>Results</b>						
Depreciation and amortization (Notes 3 and 9)	13,237	11,922	448	–	–	25,607
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	2,026	2,982	53	–	–	5,061
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(466)	70	–	398	–	2
Interest income (Note 5)	635	412	18	504	(30)	1,539
Financing costs – net (Notes 5, 9, 20 and 27)	2,611	3,804	163	8	(30)	6,556
Provision for income tax (Notes 3 and 7)	12,456	2,228	2	58	–	14,744

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
	(in million pesos)					
Net income / Segment profit	31,823	6,616	(248)	1,904	–	40,095
EBITDA	59,411	25,512	950	–	321	86,194
EBITDA margin <sup>(1)</sup>	56%	42%	11%	–	–	54%
Core income	31,715	8,344	(230)	1,311	(2)	41,138
<b>Assets and liabilities</b>						
Operating assets	95,826	222,652	12,507	12,074	(92,865)	250,194
Investments in associates and joint ventures (Notes 3, 5, 10 and 27)	–	813	–	21,420	–	22,233
Deferred income tax assets – net (Notes 3, 7 and 27)	187	7,515	19	–	–	7,721
Consolidated total assets	96,013	230,980	12,526	33,494	(92,865)	280,148
Operating liabilities	95,132	112,955	15,410	1,062	(44,857)	179,702
Deferred income tax liabilities – net (Notes 3, 7 and 27)	640	26	323	–	332	1,321
Consolidated total liabilities	95,772	112,981	15,733	1,062	(44,525)	181,023
<b>Other segment information</b>						
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	16,257	11,419	369	24	–	28,069

<sup>(1)</sup> The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments. See Note 2 – Summary of Significant Accounting Policies.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(in million pesos)		
Consolidated EBITDA	<b>79,959</b>	83,717	86,194
Equity share in net earnings of associates and joint ventures (Note 10)	<b>2,035</b>	1,408	2
Interest income (Notes 5 and 15)	<b>1,372</b>	1,200	1,539
Gains (losses) on derivative financial instruments – net (Note 27)	<b>197</b>	(1,741)	(1,006)
Amortization of intangible assets (Notes 3 and 14)	<b>(264)</b>	(388)	(368)
Foreign exchange gains (losses) – net (Notes 9 and 27)	<b>(744)</b>	1,807	909
Financing costs – net (Notes 5, 9, 20 and 27)	<b>(6,491)</b>	(6,698)	(6,556)
Asset impairment on noncurrent assets (Notes 3, 5 and 9)	<b>(8,517)</b>	(1,496)	(2,337)
Depreciation and amortization (Notes 3 and 9)	<b>(27,957)</b>	(26,277)	(25,607)
Other income (Note 18)	<b>3,087</b>	2,153	2,069
Consolidated income before income tax	<b>42,677</b>	53,685	54,839
Provision for income tax (Notes 3 and 7)	<b>11,040</b>	13,426	14,744
Consolidated net income	<b>31,637</b>	40,259	40,095

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(in million pesos)		
Consolidated core income	<b>39,035</b>	42,028	41,138
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Note 27)	<b>560</b>	(1,307)	(407)
Core income adjustment on equity share in net earnings of associates and joint ventures	<b>(476)</b>	(699)	(136)
Foreign exchange (losses) gains – net (Notes 9 and 27)	<b>(750)</b>	1,819	908
Asset impairment on noncurrent assets – net of share of noncontrolling interest (Notes 3, 5 and 9)	<b>(8,517)</b>	(1,492)	(1,948)
Others	<b>233</b>	–	(381)
Net tax effect of aforementioned adjustments	<b>1,612</b>	(132)	607
Net income attributable to equity holders of PLDT (Notes 6 and 8)	<b>31,697</b>	40,217	39,781
Net income (loss) attributable to noncontrolling interests	<b>(60)</b>	42	314
Consolidated net income	<b>31,637</b>	40,259	40,095

The following table shows the reconciliation of our consolidated basic and diluted EPS to our consolidated basic and diluted core EPS for the years ended December 31, 2011, 2010 and 2009:

	Basic			Diluted		
	2011	2010	2009	2011	2010	2009
Earnings per share attributable to common equity holder of PLDT (Note 8)	<b>163.24</b>	212.85	210.38	<b>163.10</b>	212.85	210.36
Adjustments:						
Asset impairment on noncurrent assets – net of share of noncontrolling interest (Notes 3, 5 and 9)	<b>36.49</b>	7.87	6.37	<b>36.46</b>	7.87	6.37
Foreign exchange gains (losses) – net (Notes 9 and 27)	<b>2.71</b>	(6.81)	(3.40)	<b>2.71</b>	(6.81)	(3.40)
Core income adjustment on equity share in net earnings of associates and joint ventures (Note 10)	<b>2.48</b>	3.74	0.73	<b>2.48</b>	3.74	0.73
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Note 27)	<b>(2.05)</b>	4.90	1.53	<b>(2.05)</b>	4.90	1.52
Others	<b>(1.29)</b>	–	2.04	<b>(1.29)</b>	–	2.04
	<b>38.34</b>	9.70	7.27	<b>38.31</b>	9.70	7.26
Consolidated core EPS	<b>201.58</b>	222.55	217.65	<b>201.41</b>	222.55	217.62

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(As restated – Note 2)	
	(in million pesos)		
<b>Wireless services</b>			
Service revenues:			
Cellular	<b>88,091</b>	90,629	93,352
Broadband, satellite and others	<b>8,424</b>	8,504	8,144
	<b>96,515</b>	99,133	101,496
Non-service revenues:			
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	<b>1,469</b>	1,357	1,695
Total wireless revenues	<b>97,984</b>	100,490	103,191
<b>Fixed line services</b>			
Services revenues:			
Local exchange	<b>15,003</b>	15,226	15,530
International long distance	<b>11,011</b>	11,071	11,538
National long distance	<b>5,032</b>	6,317	7,722
Data and other network	<b>17,351</b>	15,120	13,564
Miscellaneous	<b>922</b>	1,730	1,856
	<b>49,319</b>	49,464	50,210
Non-service revenues:			
Sale of computers	<b>658</b>	342	233
Point-product-sales	<b>518</b>	518	498
Total fixed line revenues	<b>50,495</b>	50,324	50,941
<b>BPO services</b>			
Service revenues:			
Knowledge processing solutions	<b>5,721</b>	5,289	5,215
Customer relationship management	<b>2,403</b>	2,284	2,676
Total BPO revenues	<b>8,124</b>	7,573	7,891
Total products and services from external customers	<b>156,603</b>	158,387	162,023

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

In each of the years ended December 31, 2011, 2010 and 2009, no revenue transactions with a single external customer had accounted for 10% or more of our consolidated revenues from external customers.

## 5. Income and Expenses

### *Non-service Revenues*

Non-service revenues for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	2,127	1,699	1,928
Point-product-sales (Note 4)	518	518	498
	<b>2,645</b>	2,217	2,426

### *Compensation and Employee Benefits*

Compensation and employee benefits for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
		(in million pesos)	
Salaries and other employee benefits	19,682	20,259	19,468
Pension benefit costs (Notes 3 and 25)	283	236	1,306
Manpower rightsizing program, or MRP	148	2,183	493
Incentive plans (Notes 3 and 25)	38	1,392	1,833
	<b>20,151</b>	24,070	23,100

Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The total MRP cost charged to operations amounted to Php148 million, Php2,183 million and Php493 million for the years ended December 31, 2011, 2010 and 2009, respectively. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

### *Asset Impairment*

Asset impairment for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
		(in million pesos)	
Property, plant and equipment (Notes 3 and 9)	8,470	120	634
Trade and other receivables (Notes 3 and 16)	1,549	834	2,335
Inventories and supplies (Notes 3 and 17)	143	108	389
Investments in associates and joint ventures (Notes 3 and 10)	44	78	–
Goodwill and intangible assets (Notes 3 and 14)	–	1,243	379
Prepayments and others (Note 18)	3	55	1,324
	<b>10,209</b>	2,438	5,061

## Cost of Sales

Cost of sales for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
	(in million pesos)		
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	4,851	4,061	4,690
Cost of point-product-sales	487	588	584
Cost of satellite air time and terminal units (Note 24)	105	122	158
	<b>5,443</b>	<b>4,771</b>	<b>5,432</b>

## Interest Income

Interest income for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
	(in million pesos)		
Interest income on other loans and receivables	1,336	1,134	1,406
Interest income on HTM investments	31	29	47
Interest income on FVPL (Note 4)	5	37	86
	<b>1,372</b>	<b>1,200</b>	<b>1,539</b>

## Financing Costs – net

Financing costs – net for the years ended December 31, 2011, 2010 and 2009 consists of the following:

	2011	2010	2009
	(in million pesos)		
Interest on loans and other related items (Notes 20 and 27)	5,960	6,181	6,008
Accretion on financial liabilities (Notes 20, 21 and 27)	1,062	1,177	1,062
Financing charges	117	50	177
Capitalized interest (Note 9) (Note 4)	(648)	(710)	(691)
	<b>6,491</b>	<b>6,698</b>	<b>6,556</b>

Interest expense for short-term borrowings amounted to Php16 million, Php5 million and Php21 million for the years ended December 31, 2011, 2010 and 2009, respectively.

## 6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the years ended December 31, 2011, 2010 and 2009 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains on available-for-sale financial assets – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Total other comprehensive loss attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
	(in million pesos)						
Balances as at January 1, 2009	(402)	24	–	–	(378)	180	(198)
Other comprehensive income (loss)	(642)	3	–	–	(639)	(15)	(654)
<b>Balances as at December 31, 2009</b>	<b>(1,044)</b>	<b>27</b>	<b>–</b>	<b>–</b>	<b>(1,017)</b>	<b>165</b>	<b>(852)</b>
Balances as at January 1, 2010	(1,044)	27	–	–	(1,017)	165	(852)
Other comprehensive income (loss)	(595)	22	–	314	(259)	(166)	(425)
<b>Balances as at December 31, 2010</b>	<b>(1,639)</b>	<b>49</b>	<b>–</b>	<b>314</b>	<b>(1,276)</b>	<b>(1)</b>	<b>(1,277)</b>
Balances as at January 1, 2011	(1,639)	49	–	314	(1,276)	(1)	(1,277)
Other comprehensive income	615	3	14	–	632	9	641
<b>Balances as at December 31, 2011</b>	<b>(1,024)</b>	<b>52</b>	<b>14</b>	<b>314</b>	<b>(644)</b>	<b>8</b>	<b>(636)</b>

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment reclassified to investment property at the time of change in classification.

## 7. Income Taxes

### *Corporate Income Tax*

The components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Net deferred income tax assets (Notes 3 and 4)	5,975	6,110
Net deferred income tax liabilities (Notes 3 and 4)	(2,902)	(1,099)

The components of our consolidated net deferred income tax assets (liabilities) as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Net deferred income tax assets:		
Unearned revenues	2,726	2,586
Accumulated provision for doubtful accounts	2,466	2,488
Unamortized past service pension costs	2,124	2,548
Fixed asset impairment	1,469	27
Derivative financial instruments	768	1,028
Provision for other assets	441	379
NOLCO	326	119
Accumulated write-down of inventories to net realizable values	198	289
Unrealized foreign exchange losses	111	924
MCIT	9	446
Capitalized taxes and duties – net of amortization	(125)	(186)
Capitalized foreign exchange differential – net of depreciation	(231)	(363)
Pension and other employee benefits	(1,653)	(1,361)
Undepreciated capitalized interest charges	(2,624)	(2,685)
Others	(30)	(129)
	<b>5,975</b>	<b>6,110</b>
Net deferred income tax liabilities:		
Intangible assets and fair value adjustments on assets acquired – net of amortization	(90)	(423)
Debt issuance costs	(182)	–
Fair value adjustment on fixed assets from business combinations	(274)	(303)
Undepreciated capitalized interest charges	(582)	(304)
Unrealized foreign exchange gains	(1,756)	(707)
Unearned revenues	–	668
Pension and other employee benefits	–	35
Others	(18)	(65)
	<b>(2,902)</b>	<b>(1,099)</b>

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Net deferred income tax assets – balance at beginning of year (Notes 3, 4 and 27)	6,110	7,721
Net deferred income tax liabilities – balance at beginning of year (Notes 3, 4 and 27)	(1,099)	(1,321)
Net balance at beginning of year	5,011	6,400
Provision for deferred income tax (Note 3)	1,261	(1,198)
Excess MCIT deducted against RCIT due	(446)	–
Business combinations (Note 13)	(2,780)	–
Movement charged directly to equity	–	(139)
Others	27	(52)
Net balance at end of year	3,073	5,011
Net deferred income tax assets – balance at end of year (Notes 3, 4 and 27)	5,975	6,110
Net deferred income tax liabilities – balance at end of year (Notes 3, 4 and 27)	(2,902)	(1,099)

The analysis of our consolidated net deferred income tax assets as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	8,505	8,789
Deferred income tax assets to be recovered within 12 months	2,541	2,222
	11,046	11,011
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	(4,301)	(4,240)
Deferred income tax liabilities to be settled within 12 months	(770)	(661)
	(5,071)	(4,901)
Net deferred income tax assets (Notes 3, 4 and 27)	5,975	6,110

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	–	690
Deferred income tax assets to be recovered within 12 months	274	72
	274	762
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	(3,176)	(1,746)
Deferred income tax liabilities to be settled within 12 months	–	(115)
	(3,176)	(1,861)
Net deferred income tax liabilities (Notes 3, 4 and 27)	(2,902)	(1,099)

Provision for corporate income tax for the years ended December 31, 2011, 2010 and 2009 consists of:

	2011	2010	2009
	(in million pesos)		
Current	12,301	12,228	14,088
Deferred (Note 3)	(1,261)	1,198	656
	11,040	13,426	14,744

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate	<b>12,803</b>	16,105	16,452
Tax effects of:			
Nondeductible expenses	<b>520</b>	442	201
Losses (income) subject to lower tax rate	<b>417</b>	450	(443)
Income subject to final tax	<b>(408)</b>	(404)	(502)
Equity share in net earnings of associates and joint ventures	<b>(610)</b>	(423)	(1)
Income not subject to income tax	<b>(1,090)</b>	(324)	(1,483)
Difference between OSD and itemized deductions	<b>(1,578)</b>	(1,759)	(3,310)
Net movement in unrecognized deferred income tax assets and other adjustments	<b>986</b>	(661)	3,830
<b>Actual provision for corporate income tax</b>	<b>11,040</b>	13,426	14,744

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. Under the OSD method of computing taxable income, corporations may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

Smart and Wolfpac opted to use and availed of the OSD method in computing their taxable income for the years ended December 31, 2011 and 2010.

Smart and Wolfpac expect to continue to use the OSD method for computing the taxable income in the foreseeable future. The availment of the OSD method has affected their recognition of deferred income tax assets and liabilities. Deferred income tax assets and liabilities of Smart and Wolfpac, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php4,240 million and Php2,803 million as at December 31, 2011 and 2010, respectively. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions*.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Fixed asset impairment	<b>29,029</b>	112
NOLCO	<b>11,372</b>	2,292
Provisions for other assets	<b>6,532</b>	170
Accumulated provision for doubtful accounts	<b>4,113</b>	1,257
Unearned revenues	<b>893</b>	712
Asset retirement obligation	<b>627</b>	–
Accumulated write-down of inventories to net realizable values	<b>270</b>	155
Derivative financial instruments	<b>155</b>	11
MCIT	<b>133</b>	36
Pension and other employee benefits	<b>127</b>	60
Unrealized foreign exchange losses	<b>22</b>	29
Operating lease and others	<b>76</b>	6
	<b>53,349</b>	4,840
<b>Unrecognized deferred income tax assets (Note 3)</b>	<b>16,098</b>	1,477



Digitel Group's unrecognized deferred income tax assets as at December 31, 2011 amounted to Php14,766 million.

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2011 are as follows:

<b>Date Incurred</b>	<b>Expiry Date</b>	<b>MCIT</b>	<b>NOLCO</b>
		(in million pesos)	
December 31, 2009	December 31, 2012	8	856
December 31, 2010	December 31, 2013	35	1,976
December 31, 2011	December 31, 2014	99	9,627
		142	12,459
Consolidated tax benefits		142	3,738
Consolidated unrecognized deferred income tax assets		(133)	(3,412)
Consolidated recognized deferred income tax assets		9	326

The excess MCIT totaling Php142 million as at December 31, 2011 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php446 million, Php156 million and Php766 million for the years ended December 31, 2011, 2010 and 2009, respectively. The amount of expired portion of excess MCIT amounted to Php16 million, Php5 million and Php3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

NOLCO totaling Php12,459 million as at December 31, 2011 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php827 million, Php445 million and Php56 million for the years ended December 31, 2011, 2010 and 2009, respectively. The amount of expired portion of NOLCO amounted to Php330 million, Php95 million and Php462 million for the years ended December 31, 2011, 2010 and 2009, respectively.

*Registration with Subic Bay Freeport and Clark Special Economic Zone*

SubicTel is registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

*Registration with Philippine Economic Zone Authority, or PEZA*

SPi is registered as an Ecozone IT enterprise to provide IT enabled services with emphasis on the presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and the implementation of healthcare documentation solutions.

SPi CRM is registered as an Ecozone export enterprise that develop and provide customer relationship management services to local and overseas clients.

As registered PEZA enterprises, SPi and SPi CRM are entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the Treasurer's Office of the Municipality or City where the enterprise is located.

Three of SPi CRM facilities (SPi CRM Iloilo, SPi CRM Pasig and SPi CRM Mandaluyong) enjoy income tax holiday, or ITH, incentive as a Board of Investments, or BOI, registered entity in PEZA registered locations. ITH incentive commenced in March 2005 up to February 2011 for SPi CRM Iloilo. Upon expiration of the ITH, SPi CRM Iloilo is now subject to a special income tax rate of 5% of gross income as a PEZA registered location. ITH incentive for both SPi CRM Pasig and SPi CRM Mandaluyong commenced in August 2006 and will continue until July 2012 and October 2012, respectively. In relation to this, they are required to comply with specific terms and conditions stated in their PEZA Supplemental Agreement.

The registration with PEZA for the operations of SPi CRM Dumaguete is still in progress and therefore it is subject to the regular corporate income tax. However, the Local Investment Board of Dumaguete City issued a Certificate of Registration and Eligibility which granted SPi CRM Dumaguete the exemption to pay local business taxes and basic real property taxes on improvements for the period from November 2010 to October 2013.

SHI was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SHI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting June 2009.

On July 28, 2005, Chikka Philippines, Inc., or CPI, a subsidiary of Chikka, was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status. Under the terms of its registration, CPI was entitled to certain tax and non-tax incentives, which include, among other things, an ITH for four years from July 2005 to July 2009. In September 2011, CPI received a letter dated August 31, 2011 from PEZA, in which PEZA refused to certify the available incentives (e.g. 5% gross income tax) due to CPI's failure to meet the required export sales of at least 70% of CPI's total sales in prior years. Consequently, CPI became subject to a 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

#### *Registration with BOI*

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007.

SBI is registered with the BOI on a pioneer status, namely as: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new IT service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of registration, SBI was entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years, SBI's ITH incentive ended last July 21, 2011. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate enacted as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php1,136 million, Php686 million and Php1,241 million for the years ended December 31, 2011, 2010 and 2009, respectively.

## **8. Earnings Per Common Share**

The following table presents information necessary to calculate the EPS for the years ended December 31, 2011, 2010 and 2009:

	2011		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Consolidated net income attributable to equity holders of PLDT (Note 4)	<b>31,697</b>	<b>31,697</b>	40,217	40,217	39,781	39,781
Dividends on preferred shares (Note 19)	<b>(458)</b>	<b>(458)</b>	(458)	(458)	(457)	(457)
Consolidated net income attributable to common equity holders of PLDT	<b>31,239</b>	<b>31,239</b>	39,759	39,759	39,324	39,324

	2011		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(in thousands, except per share amounts)					
Outstanding common shares at beginning of the year	186,756	186,756	186,797	186,797	187,484	187,484
Effect of issuance of common shares during the year (Note 19)	4,613	4,613	–	–	15	15
Effect of mandatory tender offer for all remaining Digitel shares	–	164	–	–	–	–
Average incremental number of shares under executive stock option plan, or ESOP, during the year	–	–	–	–	–	21
Effect of purchase of treasury stock during the year (Note 19)	–	–	(7)	(7)	(583)	(583)
Weighted average number of common shares	191,369	191,533	186,790	186,790	186,916	186,937
Earnings per share attributable to common equity holders of PLDT (Note 4)	Php163.24	Php163.10	Php212.85	Php212.85	Php210.38	Php210.36

Basic EPS amounts are calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the year .

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the year exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digitel shares.

Series A to EE in 2009 were deemed dilutive based on a calculation of the required dividends of these preferred shares divided by the number of equivalent common shares assuming such preferred shares are convertible into common shares, including the effect of the treasury shares, and compared against the basic EPS. Since the amount of dividends on Series A to EE in 2011 and 2010 over its equivalent number of common shares increased the basic EPS, the Convertible Preferred Stock were deemed anti-dilutive.

Under the SRC, PLDT is required to conduct a mandatory tender offer for all the remaining Digitel shares, approximately 48.4% of the issued common stock of Digitel, held by the noncontrolling shareholders in connection with PLDT's acquisition of 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of noncontrolling Digitel shareholders, except for tendering shareholders residing outside the Philippines, who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012.

The contingently issuable shares under the mandatory tender offer were considered in determining diluted earnings per share, which was calculated assuming all remaining Digitel shareholders would accept PLDT shares in response to the mandatory tender offer. See *Note 13 – Business Combinations – PLDT's Acquisition of Digitel*.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. We have acquired approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million as at December 31, 2011, in accordance with the share buyback program. The effect of the share buyback program was considered in computing our basic and diluted earnings per common share for the years ended December 31, 2011 and 2010. See *Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* for further discussion.

## 9. Property, Plant and Equipment

Changes in property, plant and equipment account for the years ended December 31, 2011 and 2010 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
(in million pesos)										
<b>As at December 31, 2009</b>										
Cost	126,327	87,517	83,451	21,693	35,282	966	8,940	2,458	24,058	390,692
Accumulated depreciation, impairment and amortization	(67,916)	(66,505)	(48,008)	(9,219)	(29,061)	(966)	(7,485)	(276)	–	(229,436)
Net book value	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
<b>Year Ended December 31, 2010</b>										
Net book value at beginning of year	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
Additions	1,494	245	2,336	228	2,045	–	184	–	22,284	28,816
Disposals/Retirements	(10)	(60)	(59)	(286)	(67)	–	–	–	(2)	(484)
Translation differences charged directly to cumulative translation adjustments	23	7	–	(5)	(59)	–	–	–	(4)	(38)
Acquisition through business combinations	–	–	–	–	73	–	–	–	–	73
Impairment losses recognized during the year (Notes 3, 4 and 5)	–	(11)	–	(13)	(5)	–	(91)	–	–	(120)
Reclassifications/Transfers (Note 12)	4,578	2,440	5,653	823	1,740	–	104	(54)	(15,326)	(42)
Depreciation and amortization (Notes 3 and 4)	(7,851)	(3,705)	(9,418)	(2,004)	(2,792)	–	(506)	(1)	–	(26,277)
Net book value at end of year (Note 3)	56,645	19,928	33,955	11,217	7,156	–	1,146	2,127	31,010	163,184
<b>As at December 31, 2010</b>										
Cost	132,356	89,992	90,574	21,873	38,078	966	9,136	2,405	31,010	416,390
Accumulated depreciation, impairment and amortization	(75,711)	(70,064)	(56,619)	(10,656)	(30,922)	(966)	(7,990)	(278)	–	(253,206)
Net book value (Note 3)	56,645	19,928	33,955	11,217	7,156	–	1,146	2,127	31,010	163,184
<b>Year Ended December 31, 2011</b>										
Net book value at beginning of year (Note 3)	56,645	19,928	33,955	11,217	7,156	–	1,146	2,127	31,010	163,184
Additions	1,585	414	3,209	332	1,902	–	315	10	23,469	31,236
Disposals/Retirements	(32)	(77)	(11)	(20)	(183)	–	–	(145)	(2)	(470)
Translation differences charged directly to cumulative translation adjustments	1	–	–	–	4	–	–	–	–	5
Acquisition through business combinations (Note 13)	9,647	963	23,917	1,881	927	–	116	476	1,806	39,733
Impairment losses recognized during the year (Notes 3, 4 and 5)	(5)	(4)	(8,457)	(2)	–	–	(2)	–	–	(8,470)
Reclassifications (Note 12)	54	(39)	–	168	35	–	–	269	(17)	470
Transfers	3,774	2,861	3,422	386	1,303	–	159	–	(11,905)	–
Depreciation and amortization (Notes 3 and 4)	(9,311)	(3,602)	(9,862)	(1,379)	(3,294)	–	(508)	(1)	–	(27,957)
Net book value at end of year (Note 3)	62,358	20,444	46,173	12,583	7,850	–	1,226	2,736	44,361	197,731
<b>As at December 31, 2011</b>										
Cost	146,430	92,812	117,521	24,299	40,731	966	9,102	3,014	44,361	479,236
Accumulated depreciation, impairment and amortization	(84,072)	(72,368)	(71,348)	(11,716)	(32,881)	(966)	(7,876)	(278)	–	(281,505)
Net book value (Note 3)	62,358	20,444	46,173	12,583	7,850	–	1,226	2,736	44,361	197,731

Substantially all of our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, which are principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities*.

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php648 million, Php710 million and Php691 million for the years ended December 31, 2011, 2010 and 2009, respectively. The average interest capitalization rates used were approximately 4%, 7% and 6% for the years ended December 31, 2011, 2010 and 2009, respectively.

Our undepreciated capitalized net foreign exchange losses, which qualified as borrowing costs amounted to Php837 million and Php1,325 million as at December 31, 2011 and 2010, respectively. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the years ended December 31, 2011 and 2010, while net foreign exchange gains differences which qualified as deduction against borrowing costs for the year ended December 31, 2009 amounted to Php119 million.

The useful lives of our assets are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	5 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 years
Vehicles, furniture and other network equipment	3 – 5 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases amounting to Php6 million and Php4 million as at December 31, 2011 and 2010, respectively. See *Note 20 – Interest-bearing Financial Liabilities*.

#### *Impairment of Smart’s Payphone Business*

In September 2010, Smart recognized an impairment loss of Php92 million on its public telephone equipment, and engaged a third party contractor to operate and maintain its payphone business. Prior to the engagement of the third party contractor, an impairment test was conducted to assess net cash flows from the payphone business. The test result showed that the future net cash flows were not enough to recover the carrying value of the related assets over the useful life of such assets. The recoverable amount was determined based on value in use, calculated using cash flow projections covering a three-year period from 2011 to the end of the assets’ expected useful lives in 2013. The 7% pre-tax discount rate was applied to cash flow projections.

#### *Impairment of Smart’s Certain Network Equipment and Facilities*

In 2011, Smart recognized an impairment loss of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program and have been identified for replacement. The modernization program is designed to enable the delivery and fulfillment of advanced capabilities to support multimedia services and upcoming technologies in our technology roadmap by substantially expanding capacity, enhancing capabilities and improving quality of experience to meet the increasing demand for cellular, and advanced broadband services in a highly competitive playing field. This program is expected to result in savings in operating expenses, as well as alignment of Smart and Digitel networks. The impairment loss recognized represents the net book value of these network equipment and facilities. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions*.

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## **10. Investments in Associates and Joint Ventures**

As at December 31, 2011 and 2010, this account consists of:

	<b>2011</b>	2010
	(in million pesos)	
Carrying value of investments in associates:		
Philweb Corporation, or Philweb	<b>1,025</b>	878
Pacific Global One Aviation Co., Inc., or PG1	<b>155</b>	–
Digitel Crossing, Inc., or DCI	<b>92</b>	–
Meralco	–	6,733
ACeS International Limited, or AIL	–	–
Asia Netcom Philippines Corp., or ANPC	–	–
	<b>1,272</b>	7,611

	2011	2010
	(in million pesos)	
Carrying value of investments in joint ventures:		
Beacon	16,593	15,438
Mobile Payment Solutions Pte. Ltd., or MPS	–	104
ePDS	–	50
PLDT Italy S.r.l., or PLDT Italy	–	–
	<b>16,593</b>	<b>15,592</b>
Total carrying value of investments in associates and joint ventures (Note 27)	<b>17,865</b>	<b>23,203</b>

Changes in the cost of investments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Balance at beginning of year	24,636	24,170
Additions during the year (including transfer of interests in Meralco to Beacon in 2010)	155	15,245
Business combinations (Note 13)	(6)	–
Disposal during the year (including transfer of interests in Meralco to Beacon)	(6,589)	(14,767)
Translation and other adjustments	–	(12)
Balance at end of year	<b>18,196</b>	<b>24,636</b>

Changes in the accumulated impairment losses for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Balance at beginning of year	1,974	1,906
Impairment (Notes 3, 4 and 5)	44	78
Impairment recovery	(92)	–
Translation and other adjustments	(44)	(10)
Balance at end of year	<b>1,882</b>	<b>1,974</b>

Changes in the accumulated equity share in net earnings of associates and joint ventures for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Balance at beginning of year	541	(31)
Equity share in net earnings (losses) of associates and joint ventures (Note 4):	2,035	1,408
Beacon	1,267	354
Meralco	576	874
Philweb	215	161
DCI	92	–
MPS	(115)	(7)
ePDS	–	26
Business combinations (Note 13)	(11)	–
Impairment recovery	(92)	–
Dividends	(519)	(530)
Disposals	(402)	(316)
Translation and other adjustments	(1)	10
Balance at end of year	<b>1,551</b>	<b>541</b>

## ***Investments in Associates***

### *Investment of ePLDT in Philweb*

In May 2006, ePLDT subscribed to newly issued common shares of Philweb, an Internet-based online gaming company, for an aggregate amount of Php503 million, representing 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. A portion of the unpaid subscription price amounting to Php25 million will be paid by ePLDT at the same time as the Philweb majority stockholders pay the remaining unpaid portion of the subscription pursuant to a general call on subscription to be made by Philweb's Board of Directors. The remaining unpaid balance of Php50 million, which remains outstanding as at December 31, 2011, will be paid upon the lapse of certain post-closing price adjustment periods.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share for an aggregate amount of Php209 million. As at December 31, 2011 and 2010, ePLDT's equity interest in Philweb is 26.4%.

Philweb is primarily engaged in Internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. The market value of ePLDT's investment in Philweb amounted to Php5,093 million and Php5,358 million, based on quoted share price of Php15.36 and Php16.14 as at market closing on December 31, 2011 and 2010, respectively.

### *Investment in PGI*

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, Metro Pacific Investments Corporation, or MPIC, and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PGI, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed for 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PGI and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PGI certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million shall be paid by PGI to PLDT in cash as soon as reasonably practicable after incorporation.

MPG, Philex, MPTC, MPIC and JSL owns 5%, 15%, 5%, 10% and 15% of PGI, respectively. PLDT has significant influence in PGI, and was accounted for as investment in associate.

PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PGI, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PGI.

### *PCEV's Acquisition of Shares in Meralco*

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., (collectively, the Lopez Group) and PLDT entered into an investment and cooperation agreement under which: (a) PLDT acquired, through PCEV as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20,070 million, or Php90 per share; and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its assignee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, PCEV and FPUC also entered into an exchangeable note agreement under which PCEV purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2,000 million, exchangeable into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by PCEV in the transaction. The exchange option was exercised simultaneously with the acquisition of such shares by PCEV. PCEV recognized a derivative asset of Php563 million on April 20, 2009 for the exchange option feature of the agreement. The residual amount of Php1,437 million was allocated as the value of the host contract of the exchangeable note. The derivative asset was subsequently carried at FVPL while the host contract was carried at amortized cost using EIR method.

On July 14, 2009, PCEV completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18,070 million for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note, representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note's discount of Php116 million. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

PCEV engaged the services of an independent appraiser to determine the fair value of Meralco's specific identifiable assets and liabilities and allocate the purchase price of PCEV's investment in Meralco among the identified assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php8,377 million between PCEV's share on the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of PCEV's investments was allocated as follows: (a) Php1,517 million for utility, plant and others; (b) Php320 million for investment properties; (c) Php36 million for investments in associates and joint ventures; (d) Php1,286 million for intangible assets particularly for franchise; (e) Php137 million for contingent liability; (f) Php1,295 million for deferred income tax liability; and (g) Php6,650 million for goodwill.

On March 30, 2010, PCEV reduced its investment in Meralco by Php15,083 million, the proportionate carrying amount of the 154.2 million shares of common stock of Meralco sold and transferred to Beacon. PCEV continued to use the equity method to account for its remaining investment in 68.8 million of Meralco's common shares until these shares were transferred to Beacon on October 25, 2011. The transfer of the Meralco common shares to Beacon in March 2010 and October 2011 is further discussed under "Investment in Joint Ventures – Transfer of PCEV's Equity Interest in Meralco" section. PCEV no longer holds any share in Meralco with the transfer of the remaining 68.8 million shares of common stock of Meralco common on October 25, 2011. The carrying value of PCEV's direct investment in Meralco amounted to Php6,733 million with market value of Php15,686 million as at December 31, 2010 based on quoted share price of Php228 per share.

#### *Investment of ACeS Philippines in AIL*

As at December 31, 2011, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net income of AIL amounted to Php57 million for the year ended December 31, 2011, while unrecognized share in net losses of AIL amounted to Php35 million and Php11 million for the years ended December 31, 2010 and 2009, respectively. Share in net cumulative losses amounting to Php2,035 million and Php2,102 million as at December 31, 2011 and 2010, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions* and *Note 27 – Financial Assets and Liabilities* for further details as to the contractual relationships with respect to AIL.



### *Investment of Digitel in DCI and ANPC*

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd., or AGC) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI. The proposed 40-40-20 joint venture, or JV, would develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed JV, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US\$1.4 million, or Php69.5 million, for a 60% equity interest in ANPC. On June 28, 2001, DCI was incorporated with Digitel, PNPI and ANPC owning 40%, 40% and 20%, respectively of the JV. Digitel contributed US\$4.4 million, or Php222 million, for a 40% equity interest in DCI. Effectively, Digitel has 52% direct and indirect ownership in DCI with combined investment cost of US\$5.8 million.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. Digitel management is currently evaluating and reviewing the proper disposition of this investment.

As at December 31, 2011, the investment in DCI and ANPC has a carrying value of Php92 million and nil, respectively.

### *Summarized Financial Information of Associates*

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	
		(in million pesos)	
<b>Statements of Financial Position:</b>			
Noncurrent assets	<b>893</b>		8,375
Current assets	<b>912</b>		3,947
Equity (Capital deficiency)	<b>(858)</b>		2,723
Noncurrent liabilities	<b>1,489</b>		5,503
Current liabilities	<b>1,174</b>		4,096

	2011	2010	2009
		(in million pesos)	
<b>Income Statements:</b>			
Revenues	<b>484</b>	246,807	186,227
Expenses	<b>249</b>	229,145	178,018
Other expenses	<b>17</b>	1,242	1,966
Net income	<b>248</b>	10,834	6,634

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2011 and 2010.

### *Investments in Joint Ventures*

#### *Transfer of PCEV's Equity Interest in Meralco*

On March 1, 2010, PCEV, MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., was organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

### *Investment in Beacon*

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon, consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

On April 29, 2010, the Philippine SEC approved Beacon's application to increase its authorized capital stock to Php5,000 million consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock entitled to liquidation preference and yearly cumulative dividends at the rate of 7% for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) the full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540, million in the aggregate; and (2) Php6,600 million in cash, as further described below in "Transfer of Meralco Shares to Beacon".

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of PCEV's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of PCEV, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in "Transfer of Meralco Shares to Beacon" section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

On October 19, 2011, PCEV's Board of Directors approved the transfer to Beacon of PCEV's remaining 68.8 million shares of common stock of Meralco for a total cash consideration of Php15,136 million and a subscription of 1,199 million Beacon preferred shares entitled to a liquidation preference and cumulative annual dividends of 7% for the same amount in cash.

The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011. PCEV and Beacon entered into a Subscription Agreement on October 20, 2011 for the preferred shares.

Since both transactions involve entities with common shareholders, a deferred gain on transfer of the Meralco shares amounting to Php8,145 million was recognized and presented as an adjustment to the investment cost of the preferred shares. Similar to the deferred gain on the transfer of the 154.2 million shares of common stock of Meralco, the deferred gain will only be realized upon the disposal of the shares to a third party. The carrying value of investment in preferred shares amounted to Php6,991 million was presented as part of available-for-sale financial assets in our consolidated statement of financial position as at December 31, 2011.

On December 2, 2011, PCEV's Board of Directors approved a further subscription of 135 million Beacon common shares for a total cash consideration of Php2,700 million. PCEV and Beacon entered into a subscription agreement on January 20, 2012 for said common shares. Also, on the same date, MPIC subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

#### *Transfer of Meralco Shares to Beacon*

Alongside with the subscription to the Beacon shares pursuant to the OA, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the PCEV Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of PCEV's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the approval of the shareholders of PCEV, which was obtained on May 7, 2010. Consequently, on May 12, 2010, PCEV transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million.

The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,083 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon by MPIC and PCEV in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

On October 19, 2011, PCEV's Board of Directors approved the transfer to Beacon of PCEV's remaining investment in 68.8 million of Meralco's common shares for a total cash consideration of Php15,136 million. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011.

#### *Call Option*

Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

#### *Property Dividends*

With respect to the approximately 317.8 million Transferred Shares, and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option and the 68.8 million shares transferred by PCEV to Beacon in October 2011, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

#### *Governance Arrangements*

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure resulted in a jointly controlled entity.

In 2010, Beacon engaged the services of an independent appraiser to provide the fair market values of the operating equity investments, fixed assets and intangible assets of Meralco at the time of Beacon's acquisition of its Meralco shares and allocate the purchase price of Beacon's investment in Meralco among the identifiable assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php50,596 million between Beacon's share of the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of Beacon's investment was allocated as follows: (a) Php2,521 million for utility, plant and others; (b) Php341 million for investment properties; (c) Php59 million for investment in associates and joint ventures; (d) Php1,814 million for intangible assets particularly for franchise; (e) Php26 million for contingent liability; (f) Php2,018 million for deferred income tax liabilities; and (g) Php47,905 million for goodwill.

Beacon also recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for certain property dividends that may be declared on its Meralco shares pursuant to the Option Agreement between Beacon and FPHC. The liability for contingent consideration was remeasured based on the fair value of said property dividends as at December 31, 2011 and 2010, and the resulting remeasurement loss of Php317 million and Php331 million, were charged to profit or loss for the years ended December 31, 2011 and 2010, respectively.

### *Beacon's Acquisition of Additional Meralco Shares*

On various dates in 2011, Beacon acquired from the market additional 49.9 million Meralco common shares or an equivalent of approximately 4.5% beneficial ownership in Meralco at an aggregate nominal value of Php14,310 million.

As at December 31, 2011, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of Php104,092 million and market value of Php126,379 million based on quoted price of Php247 per share. PLDT, through PCEV, has approximately 22.7% indirect interest in Meralco through PCEV's investment in Beacon as at December 31, 2011. As at December 31, 2010, Beacon beneficially owned 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco with a carrying value of Php73,322 million and market value of Php89,491 million based on quoted price of Php228 per share.

In January 2012, Beacon acquired 30 million Meralco common shares from FPUC representing approximately 2.7% beneficial ownership in Meralco at nominal value of Php295 per share, increasing Beacon's beneficial ownership in Meralco to 48%. FPUC will retain certain property dividends that may be declared on such shares.

### *Beacon Financing*

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common stock from the market, including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to Php17,835 million and Php16,027 million as at December 31, 2011 and 2010, respectively.

In May 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility amounted to Php4,000 million and was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares from the market. The outstanding balance of the facility amounted to Php3,897 million as at December 31, 2011. The undrawn amount of Php7,000 million is earmarked for payment of final tranche of deferred purchases made in May 2011.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC.

The above facilities were secured by a pledge over Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated long-term debt.

### *Investment of SHI in MPS*

In June 2010, SHI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SHI and MasterCard Asia, respectively. On November 9, 2010, SHI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SHI, respectively. As at March 6, 2012, both MasterCard Asia and SHI have not remitted their payment for the additional shares allotted.

### *Investment of ePLDT in ePDS*

ePLDT entered into a JVA on June 27, 2003 with DataPost Pte. Ltd., or DataPost, a subsidiary of Singapore Post, or Spring, and Quantum pursuant to which the parties formed ePDS, a bills printing company that performs laser printing and enveloping services for statements, bills and invoices, and other VAS for companies in the Philippines. ePLDT has a 50% equity interest in ePDS, while DataPost has a 30% equity interest. Quantum, the largest international mail services provider, owns the remaining 20% equity interest. ePDS has an initial paid-up capital of Php11 million.

On August 24, 2011, Quantum sold its 17% and 3% equity interest in ePDS to ePLDT and DataPost, respectively. As a result, ePLDT and DataPost, with the conformity of Quantum mutually terminated the JVA and, henceforth, their respective rights and obligations and the terms and conditions governing their relationship and the management, directors and shareholders of ePDS was set forth in a Shareholder's Agreement. See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations – PLDT's Acquisition of ePDS*.

### *Investment of PLDT Global in PLDT Italy*

PLDT Global holds 100% nominal interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million as at December 31, 2011 and 2010. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at December 31, 2011.

### *Summarized Financial Information of Joint Ventures*

The following table presents our share in the summarized financial information of our investments in joint ventures as at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	
		(in million pesos)	
<b>Statements of Financial Position:</b>			
Noncurrent assets	51,985	36,697	
Current assets	822	912	
Equity	36,210	27,520	
Noncurrent liabilities	10,866	8,018	
Current liabilities	5,731	2,071	
	2011	2010	2009
		(in million pesos)	
<b>Income Statements:</b>			
Revenues	2,450	2,884	387
Expenses	81	297	527
Other expenses	1,070	1,503	3
Net income	1,299	1,065	154

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2011 and 2010.

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## 11. Investment in Debt Securities

As at December 31, 2011 and 2010, this account consists of:

	2011	2010
	(in million pesos)	
National Power Corporation, or NAPOCOR, Zero Coupon Bond	358	334
Rizal Commercial Banking Corporation, or RCBC, Note	150	150
	508	484
Less current portion (Note 27)	358	–
Noncurrent portion (Note 27)	150	484

### *NAPOCOR Zero Coupon Bonds*

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, maturing on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond, which is classified as a financial asset HTM, is carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php23 million, Php22 million and Php20 million for the years ended December 31, 2011, 2010 and 2009, respectively.

### *RCBC Note*

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC Note may be redeemed at the option of the Issuer at par plus accrued and unpaid interest on February 22, 2013. Smart designated the RCBC Note as HTM financial asset. Interest income recognized on the RCBC Note amounted to Php8 million in each of the years ended December 31, 2011, 2010 and 2009.

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## 12. Investment Properties

Changes in investment properties account for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Balance at beginning of year	1,560	1,210
Net gains from fair value adjustments charged to profit or loss <sup>(1)</sup> (Note 3)	26	6
Transfers from (to) property, plant and equipment (Note 9)	(470)	491
Disposals	(1)	(147)
Balance at end of year (Notes 3 and 27)	1,115	1,560

<sup>(1)</sup> Presented as part of "Other income" in our consolidated income statement.

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation was based on an open market value, supported by a market evidence in which such assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of valuation. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses related to investment properties amounted to Php70 million, Php75 million and Php24 million for the years ended December 31, 2011, 2010 and 2009, respectively.

### 13. Business Combinations

#### *SPi's Acquisition of Laserwords*

On November 1, 2011, SPi acquired, through SPi Technologies India Private Ltd., a wholly-owned subsidiary of SPi, a 100% equity interest in Laserwords for a total cash consideration of US\$23 million or Php1,030 million.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	Previous Carrying Value		Provisional Values Recognized on Acquisition	
	In U.S. Dollar	In Php <sup>(1)</sup>	In U.S. Dollar	In Php <sup>(1)</sup>
	(in millions)			
<b>Assets:</b>				
Property, plant and equipment (Note 9)	–	20	–	20
Goodwill (Note 14)	11	460	–	–
Cash and cash equivalents	1	53	1	53
Trade and other receivables	4	152	4	152
Other current assets	3	125	3	125
	19	810	8	350
<b>Liabilities:</b>				
Accounts payable	2	91	2	91
Accrued expenses and other current liabilities	1	44	1	44
Other current liabilities	1	34	1	34
	4	169	4	169
Total net assets acquired	15	641	4	181
Provisional goodwill from the acquisition			19	849
Purchase consideration transferred			23	1,030
<b>Cash flows from investing activity:</b>				
Net cash acquired with subsidiary			1	53
Cash paid			(23)	(1,030)
Purchase of subsidiary – net of cash acquired			(22)	(977)
<b>Cash flow from operating activity:</b>				
Transaction cost paid				34

<sup>(1)</sup> Converted to Philippine Peso using the exchange rate at the time of purchase of Php42.98 to US\$1.00.

The net assets recognized at the date of acquisition were based on provisional fair values of the assets owned by Laserwords, which will be determined through an independent valuation. The result of this valuation had not been finalized as at March 6, 2012.

The provisional goodwill of Php849 million pertains to the assembled workforce and existing contracts with the customers for publishing services. The provisional goodwill was not tested for impairment since there were no identified indicators of impairment.

Our consolidated revenues would have increased by Php804 million and our net income would have decreased by Php8 million for the year ended December 31, 2011 had the acquisition of Laserwords actually taken place on January 1, 2011. Total revenues and net income of Laserwords included in our consolidated income statement from November 1, 2011 to December 31, 2011 amounted to Php129 million and Php26 million, respectively.



*ePLDT's Acquisition of ePDS*

On August 24, 2011, Quantum and ePLDT entered into a Deed of Sale of Shares whereby Quantum sold an aggregate 6 million of its common shares equivalent to 17% of the issued and outstanding capital stock of ePDS, to ePLDT for a cash consideration of Php32 million. This additional acquisition of ePDS shares increased ePLDT's shareholding in ePDS from 50% equity interest with a carrying value of Php16.5 million to 67% equity interest with a total carrying value at the time of acquisition of Php49 million. Previously, ePLDT accounted for its investment in ePDS as investment in joint venture.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values as follows at date of acquisition:

	Previous Carrying Value	Fair Value at Acquisition
	(in million pesos)	
<b>Assets:</b>		
Property, plant and equipment (Note 9)	12	12
Deferred income tax assets – net (Note 7)	3	3
Other noncurrent assets	4	4
Cash and cash equivalents	104	104
Trade and other receivables	40	40
Prepayments and other current assets	6	6
	169	169
<b>Liabilities:</b>		
Other noncurrent liabilities	9	9
Accounts payable	89	89
Accrued expenses and other current liabilities	37	37
	135	135
Noncontrolling interests	34	34
Total net assets acquired	–	(11)
Goodwill from the acquisition	34	23
Purchase consideration transferred:		49
Cash paid		32
Fair value of previous interest		17
		49
<b>Cash flows from investing activity:</b>		
Net cash acquired with subsidiary		104
Cash paid		(32)
Cash acquired – net of purchase of subsidiary		72

Noncontrolling interests represent interest not owned by ePLDT, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php39.9 million and Php40.3 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

The goodwill of Php26 million pertains to the fair value of ePDS' printing and enveloping business. The goodwill was not tested for impairment since there were no identified indicators of impairment.

No gain was recognized from revaluation of ePLDT's previously held interest of 50% in ePDS since the carrying value of investment is equal to the fair value at the time of acquisition of noncontrolling interest.

Our consolidated revenues and net income would have increased by Php97 million and Php10 million, respectively, for the year ended December 31, 2011 had the acquisition of ePDS actually taken place on January 1, 2011. Total revenues and net income of ePDS included in our consolidated income statement from August 24, 2011 to December 31, 2011 amounted to Php65 million and Php7 million, respectively.

### *PLDT's Acquisition of Digitel*

On March 29, 2011, the Board of Directors of PLDT and JGS approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is the 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.7 million new PLDT common shares) consideration payable for the Enterprise Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Enterprise Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

The completion of the acquisition was subject to the procurement of certain regulatory and other approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock; (ii) the confirmation by the Philippine SEC of the valuation of the Enterprise Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Enterprise Assets and the Digitel shares which shall have been tendered pursuant to the mandatory tender offer.

In addition, the sale of the Digitel shares owned by the seller-parties was subject to the consent of certain creditors of Digitel and DMPI. Digitel and DMPI have outstanding long-term debts that had been guaranteed by JGS. The loans and guarantees contained representations and covenants applicable to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGS by PLDT as guarantor for these loans.

The acquisition was completed on October 26, 2011 following the issuance by the Philippine SEC on July 29, 2011 of the confirmations referred to in clauses (ii) and (iv) above, or the Decision, by the NTC on October 26, 2011 of the approval referred to in clause (i) above, and by the PSE on October 26, 2011 of the approval referred to in clause (iii) above. PLDT's common shareholders had earlier approved the issuance of PLDT common shares as payment for the Enterprise Assets during the PLDT stockholder's meeting held on June 14, 2011.

As part of the NTC Decision, the NTC also approved the divestment plan presented by PLDT, which covers the following commitments:

- CURE will sell its *Red Mobile* business to Smart consisting of its subscriber base, brand and fixed assets;
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band, or the Affected Frequency, and related permits, or the Divestment Sale; and
- PLDT will have a period of nine months reckoned from the date of promulgation of the Decision, or the Transition Period, to effect the orderly migration of CURE's customers and an orderly transfer of CURE's assets to Smart with the least disruption and degradation of service to CURE's existing customers.

The Divestment Sale will be made under the supervision and control of the NTC and will be effected through a competitive bidding among duly enfranchised and qualified public telecommunication entities. A minimum price will be prescribed to allow Smart to recover its investment in acquiring, developing and operating CURE, or the Cost Recovery Amount. In the event that the actual proceeds from the Divestment Sale exceed the Cost Recovery Amount, PLDT will pay the NTC, as fee for supervising the Divestment Sale, at least 50% of such excess less government fees and taxes payable as a consequence of the Divestment Sale.

The Divestment Sale will be conducted within six months after the Transition Period, provided the Decision shall have become final and executory. However, in the event that there will be a delay in the implementation of the Divestment Sale by reason of appeal or any legal challenge against the Decision, CURE will continue to pay spectrum user's fee and other related fees which will form part of the Cost Recovery Amount. While the Divestment Sale is pending, the PLDT Group will not use the Affected Frequency.

As payment for the Enterprise Assets, PLDT issued approximately 27.7 million common shares with a total issue value of around Php69 billion to the seller-parties. Said shares are subject to a lock-up period of one (1) year during which JGS and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consents to the sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS had entered into with a Philippine associate of First Pacific and NTT DOCOMO, respectively. Following the sale of those shares in November 2011, the JG Summit Group, First Pacific Group and its Philippine affiliates, and NTT Group (NTT DOCOMO together with NTT-UK) owned approximately 8%, 26% and 21% of PLDT's outstanding common shares, respectively.

On December 8, 2011, PLDT exercised the conversion option for 4 billion Digitel common shares with stated value of Php4 billion comprising 25% of the total amount of increase in Digitel's authorized capital stock, which was paid through the assignment by PLDT to Digitel of: (i) 2013 Convertible Bonds issued by Digitel, with redemption value of US\$25 million or Php1,087 million as of the conversion date of December 8, 2011; and (ii) 15.6% of its 2014 Exchangeable Bonds issued by DCPL with redemption value of US\$66 million, or Php2,913 million, as of the exchange date of December 8, 2011. As a result of this partial conversion and exchange by PLDT of bonds into 4 billion Digitel common shares, PLDT's equity interest increased from 51.6% to 70.2% of the outstanding common stock of Digitel as at January 12, 2012.

Under the SRC, PLDT is required to conduct a mandatory tender offer for all the remaining Digitel shares approximately 48.4% of the issued common stock of Digitel, held by the noncontrolling shareholders in connection with PLDT's acquisition of 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of noncontrolling Digitel shareholders, except for tendering shareholders residing outside the Philippines, who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012. The contingently issuable shares under the mandatory tender offer were considered in determining diluted earnings per share, which was calculated assuming all remaining Digitel's shareholders would accept PLDT shares in response to the mandatory tender offer. See *Note 8 – Earnings Per Common Share*.

On January 25, 2012, Digitel filed for voluntary delisting of its shares with the PSE, since its public ownership level has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and accordingly ordered the delisting of the shares of Digitel from the Official Registry of the PSE effective March 26, 2012. Subject to the payment of the required voluntary delisting fee, Digitel shares shall no longer be tradable on the PSE effective March 26, 2012.

From February 1 to 3, 2012, PLDT purchased from the open market 37.9 million common shares of Digitel.

On February 7, 2012, PLDT's Board of Directors authorized the exchange of 78.4% of Exchangeable Bonds due 2014 issued by DCPL with redemption value of US\$340 million, or Php14,641 million, in exchange for 14,641 million Digitel common shares. As a result of the open market purchase of 37.9 million common shares of Digitel and the additional partial exchange by PLDT of bonds into 14,641 million Digitel common shares, PLDT further increased its equity interest to 99.4% of the outstanding common stock of Digitel as at March 6, 2012.

PLDT's acquisition of equity interest, convertible bonds and advances owned by JGS Group, and the mandatory tender offer are linked transactions and was accounted for as a single business combination transaction.

The consideration of Php69,429 million is the sum of the fair value of PLDT's newly issued common shares of 27.7 million shares with fair market value per share of Php2,330 and an aggregate value in the amount of Php64,492 in exchange for the equity interest, convertible bonds and advances owned by JGS Group, and the fair value of financial instruments based on the statutory put option for the mandatory tender offer of Php4,937 million. The fair value of PLDT's newly issued shares is valued at Php2,330 per share, which is the quoted fair market value per share as at the market closing on October 26, 2011, the Closing Date of the sale transaction, or the Closing Date. Incidental cost related to acquisition amounting to Php599 million was recognized as expense.

As a result of the transaction, provisional goodwill amounting to Php68,340 million, representing the difference between the total consideration of Php69,429 million and the provisional value of net assets acquired of Php1,089 million, was recognized.

The purchase price consideration has been allocated to the assets and liabilities on the basis of provisional values at the date of acquisition as follows:

	Previous Carrying Value	Provisional Values Recognized on Acquisition
(in million pesos)		
<b>Assets:</b>		
Property, plant and equipment	39,701	39,701
Advances and other noncurrent assets – net of current portion	153	153
Cash and cash equivalents	1,856	1,856
Trade and other receivables	1,593	1,593
Inventories and supplies	281	281
Prepayments	3,039	3,039
Current portion of advances and other noncurrent assets	4	4
	<u>46,627</u>	<u>46,627</u>
<b>Liabilities:</b>		
Interest-bearing financial liabilities – net of current portion	17,401	17,401
Deferred income tax liabilities – net	2,783	2,783
Derivative financial liabilities	329	329
Pension and other employee benefits	64	64
Customers' deposits	4	4
Deferred credits and other noncurrent liabilities	6,004	6,004
Accounts payable	2,318	2,318
Accrued expenses and other current liabilities	12,202	12,202
Derivative financial liabilities	88	88
Current portion of interest-bearing financial liabilities	4,345	4,345
	<u>45,538</u>	<u>45,538</u>
Total net assets acquired	1,089	1,089
Provisional goodwill from the acquisition		68,340
Purchase consideration transferred		<u>69,429</u>
		<u>69,429</u>
Fair value of newly issued PLDT common shares		64,492
Mandatory tender offer option liability		4,937
		<u>69,429</u>
<b>Cash flow investing activity:</b>		
Net cash acquired with subsidiary		1,856
Incidental cost		599

The net assets recognized at the date of acquisition were based on provisional fair values of the assets owned by Digitel, which will be determined through an independent valuation. The result of this valuation had not been finalized as at March 6, 2012.

The fair value and gross amount of trade and other receivables amounted to Php1,470 million and Php3,948 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php2,478 million.

The provisional goodwill of Php68,340 million pertains to the expected synergies once the wireless and fixed line businesses of Digitel is integrated into the PLDT Group. The provisional goodwill was not tested for impairment since the acquisition occurred in the fourth quarter of 2011 and there was no material change in Digitel's business since obtaining the fairness opinion from an independent financial advisor. Expected synergies arising from the acquisition includes cost efficiencies attainable from elimination of redundant infrastructure and facilities between PLDT, Smart and Digitel, and expected increase in revenue from current market share of PLDT, Smart and Digitel due to enhanced connectivity and integrated products and services.

Our consolidated revenues would have increased by Php18,119 million, while our consolidated net income would have increased by Php711 million for the year ended December 31, 2011 had the acquisition of Digitel actually taken place on January 1, 2011. Total revenues and net loss of Digitel included in our consolidated income statement from October 26, 2011 to December 31, 2011 amounted to Php3,845 million and Php606 million, respectively.

#### 14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2011 and 2010 are as follows:

	Intangible Assets					Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Customer List	Spectrum	Licenses	Technology Application	Trademark			
(in million pesos)								
<b>December 31, 2011</b>								
Costs:								
Balance at beginning of year	1,632	1,205	554	993	159	4,543	14,733	19,276
Business combinations (Note 13)	–	–	–	–	–	–	69,215	69,215
Additions	–	–	2	–	–	2	–	2
Disposal (Note 2)	–	–	(436)	–	–	(436)	(464)	(900)
Translation and other adjustments	3	–	–	60	(1)	62	308	370
<b>Balance at end of year</b>	<b>1,635</b>	<b>1,205</b>	<b>120</b>	<b>1,053</b>	<b>158</b>	<b>4,171</b>	<b>83,792</b>	<b>87,963</b>
Accumulated amortization and impairment:								
Balance at beginning of year	1,212	509	426	977	41	3,165	4,626	7,791
Amortization during the year (Note 3)	146	80	17	8	13	264	–	264
Disposal	–	–	(407)	–	–	(407)	(430)	(837)
Translation and other adjustments	2	–	5	57	(1)	63	26	89
<b>Balance at end of year</b>	<b>1,360</b>	<b>589</b>	<b>41</b>	<b>1,042</b>	<b>53</b>	<b>3,085</b>	<b>4,222</b>	<b>7,307</b>
<b>Net balance at end of year (Notes 3 and 27)</b>	<b>275</b>	<b>616</b>	<b>79</b>	<b>11</b>	<b>105</b>	<b>1,086</b>	<b>79,570</b>	<b>80,656</b>
Estimated useful lives (in years)	1 – 8	15	18	3 – 5	1 – 10	–	–	–
Remaining useful lives (in years)	2 – 6	8	11	1 – 4	8	–	–	–
<b>December 31, 2010</b>								
Costs:								
Balance at beginning of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Additions	19	–	19	4	1	43	–	43
Translation and other adjustments	(42)	–	(78)	22	131	33	(468)	(435)
<b>Balance at end of year</b>	<b>1,632</b>	<b>1,205</b>	<b>554</b>	<b>993</b>	<b>159</b>	<b>4,543</b>	<b>14,733</b>	<b>19,276</b>
Accumulated amortization and impairment:								
Balance at beginning of year	995	428	448	964	–	2,835	3,809	6,644
Impairment during the year	56	–	18	–	–	74	1,169	1,243
Amortization during the year (Note 3)	219	81	36	11	41	388	–	388
Translation and other adjustments	(58)	–	(76)	2	–	(132)	(352)	(484)
<b>Balance at end of year</b>	<b>1,212</b>	<b>509</b>	<b>426</b>	<b>977</b>	<b>41</b>	<b>3,165</b>	<b>4,626</b>	<b>7,791</b>
<b>Net balance at end of year (Notes 3 and 27)</b>	<b>420</b>	<b>696</b>	<b>128</b>	<b>16</b>	<b>118</b>	<b>1,378</b>	<b>10,107</b>	<b>11,485</b>

	Intangible Assets					Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Customer List	Spectrum	Licenses	Technology Application	Trademark			
Estimated useful lives (in years)	1 – 8	15	2 – 18	3 – 5	1 – 10	–	–	–
Remaining useful lives (in years)	1 – 7	9	1 – 12	2 – 4	9	–	–	–

### ***Intangible Assets***

#### *Intangible Assets from Acquisition of SPi and CyMed, Inc., or CyMed*

In 2010, ePLDT recognized an impairment of its remaining intangible assets from the acquisition of SPi and CyMed amounting to Php19 million and Php38 million, respectively, pertaining to the medical transcription business of SPi, since the carrying amount of the individual assets from SPi and CyMed were deemed unrecoverable.

#### *Intangible Assets from Acquisition of Chikka and PDSI*

In 2010, Smart recognized intangible assets of Php132 million for technology and tradename and Php23 million for technology and customer base acquired in the purchase of Chikka Group and PDSI, respectively, based on the result of the valuation done by an independent appraiser.

The consolidated future amortization of intangible assets as at December 31, 2011 is as follows:

Year	(in million pesos)
2012	206
2013	206
2014	161
2015	107
2016 and onwards	406
Balance at end of year	1,086

### ***Impairment Testing of Goodwill***

#### *Goodwill from Acquisition of SBI, CURE, Airborne Access, PDSI and Chikka*

The organizational structure of Smart and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at December 31, 2011, Smart's goodwill comprised of goodwill resulting from Smart's acquisition of SBI in 2004, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access from ePLDT in 2008 and Smart's acquisition of PDSI and Chikka in 2009. The test for recoverability of Smart's goodwill was applied to the wireless asset group, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among Smart, CURE, SBI and PDSI through subscribers availing themselves of their respective cellular (for Smart and CURE) and wireless broadband (for SBI and PDSI) services, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common-used network/platform. In the case of CURE, it provides cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. With the common use of wireless assets of Smart in providing 3G cellular and wireless broadband access, the lowest level of assets of CURE, SBI and PDSI for which cash flows are clearly identifiable from other groups of assets is Smart's wireless business segment. On the other hand, Chikka's mobile applications and content are developed mainly for the cellular subscribers of Smart and CURE.

The recoverable amount of this segment had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a five-year period from 2012 to 2016. The pre-tax discount rate applied to cash flow projections is 8.8% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

With regard to the assessment of value-in-use of the entire operations, management believes that no reasonably possible change in the discount of 1% would cause the carrying value of the unit to materially exceed its recoverable amount. The recoverable amount exceeded the carrying amount of the CGU, which as a result, no impairment was recognized by Smart for the years ended December 31, 2011 and 2010.

*Goodwill from Acquisition of SPi and its Subsidiaries, CyMed, Springfield Service Corporation, or Springfield, and Laguna Medical Systems, Inc., or Laguna Medical*

The goodwill acquired through the SPi, CyMed, Springfield and Laguna Medical transactions was allocated for impairment testing to each of the CGUs of those businesses, namely medical transcription, content solutions, medical billing and medical coding, respectively. The recoverable amount of goodwill was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The pre-tax discount rate of 15% was applied based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the assets or businesses of such CGUs.

The recoverable amount exceeded the carrying amount of the CGU, which as a result, no impairment was recognized by SPi for the year ended December 31, 2011. ePLDT recognized an impairment losses of Php905 million for the year ended December 31, 2010 pertaining to the medical transcription business of SPi and CyMed.

*Goodwill from Acquisition of Level Up!*

Goodwill acquired from our acquisition in 2006 of a 60% equity interest in Level Up! was tested for impairment. ePLDT recognized an impairment charge of Php48 million for the year ended December 31, 2010 pertaining to the goodwill from acquisition of Level Up! based on the expected selling price of Level Up!. See *Note 2 – Summary of Significant Accounting Policies* for the related discussion on the sale of investment in Level Up!.

*Goodwill from Acquisition of Digital Paradise*

Goodwill acquired from the acquisition of Digital Paradise was tested for impairment based on the recoverable amount of the CGU where recoverable amount was determined based on the cash flow projections on the most recent financial budgets and forecasts approved by the Board of Directors. The pre-tax discount rate applied was 22% which was based on the weighted average cost of capital. ePLDT recognized full impairment provision of Php85 million as at December 31, 2009. See *Note 2 – Summary of Significant Accounting Policies* for the related discussion on the sale of investment in Digital Paradise.

*Goodwill from Acquisition of AGS*

Goodwill acquired from the acquisition of AGS was tested for impairment based on the recoverable amount of the CGU, determined based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors. The pre-tax discount rate applied was 22%, which was based on the weighted average cost of capital. ePLDT recognized full impairment provision of Php216 million as at December 31, 2010.

## 15. Cash and Cash Equivalents

As at December 31, 2011 and 2010, this account consists of:

	2011	2010
	(in million pesos)	
Cash on hand and in banks (Note 27)	4,637	2,906
Temporary cash investments (Note 27)	41,420	33,772
	<b>46,057</b>	<b>36,678</b>

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 27 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,332 million, Php1,081 million and Php1,185 million for the years ended December 31, 2011, 2010 and 2009, respectively.

## 16. Trade and Other Receivables

As at December 31, 2011 and 2010, this account consists of receivables from:

	2011	2010
	(in million pesos)	
Retail subscribers (Note 27)	11,302	8,917
Corporate subscribers (Notes 24 and 27)	9,200	7,998
Foreign administrations (Note 27)	4,961	4,479
Domestic carriers (Notes 24 and 27)	1,323	1,591
Dealers, agents and others (Notes 18, 24 and 27)	4,231	5,273
	<b>31,017</b>	<b>28,258</b>
Less allowance for doubtful accounts (Notes 3, 5 and 27)	14,772	11,830
	<b>16,245</b>	<b>16,428</b>

Changes in the allowance for doubtful accounts for the years ended December 31, 2011 and 2010 are as follows:

	Total	Corporate Subscribers	Retail Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
	(in million pesos)					
<b>December 31, 2011</b>						
Balance at beginning of year	11,830	5,956	5,045	158	138	533
Business combinations and others (Note 13)	2,463	305	1,870	42	56	190
Provisions (Notes 3, 4 and 5)	1,549	673	812	12	6	46
Write-offs	(1,037)	(344)	(675)	–	(11)	(7)
Translation and other adjustments	(33)	(98)	212	(13)	(78)	(56)
Balance at end of year	<b>14,772</b>	<b>6,492</b>	<b>7,264</b>	<b>199</b>	<b>111</b>	<b>706</b>
Individual impairment	9,239	5,278	3,099	199	111	552
Collective impairment	5,533	1,214	4,165	–	–	154
	<b>14,772</b>	<b>6,492</b>	<b>7,264</b>	<b>199</b>	<b>111</b>	<b>706</b>
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,239	5,278	3,099	199	111	552



	<b>Total</b>	<b>Corporate Subscribers</b>	<b>Retail Subscribers</b>	<b>Foreign Administrations</b>	<b>Domestic Carriers</b>	<b>Dealers, Agents and Others</b>
(in million pesos)						
<b>December 31, 2010</b>						
Balance at beginning of year	11,950	6,677	4,480	289	83	421
Provisions (Notes 3, 4 and 5)	834	152	493	–	64	125
Write-offs	(932)	(562)	(284)	(5)	–	(81)
Translation and other adjustments	(22)	(311)	356	(126)	(9)	68
Balance at end of year	11,830	5,956	5,045	158	138	533
Individual impairment	8,861	5,413	2,745	158	138	407
Collective impairment	2,969	543	2,300	–	–	126
	11,830	5,956	5,045	158	138	533
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,861	5,413	2,745	158	138	407

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

See Note 24 – *Related Party Transactions* for the summary of transactions with related parties and Note 27 – *Financial Assets and Liabilities* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

## 17. Inventories and Supplies

As at December 31, 2011 and 2010, this account consists of:

	<b>2011</b>	2010
(in million pesos)		
Spare parts and supplies:		
At net realizable value	<b>1,606</b>	1,152
At cost	<b>2,256</b>	2,163
Terminal and cellular phone units:		
At net realizable value	<b>1,349</b>	737
At cost	<b>1,728</b>	918
Others:		
At net realizable value	<b>872</b>	330
At cost	<b>875</b>	333
Total inventories and supplies at the lower of cost or net realizable value (Notes 3, 4, 5 and 27)	<b>3,827</b>	2,219

The cost of inventories and supplies recognized as expense for the years ended December 31, 2011, 2010 and 2009 are as follows:

	<b>2011</b>	2010	2009
(in million pesos)			
Cost of sales	<b>2,037</b>	3,517	4,714
Repairs and maintenance	<b>517</b>	357	429
Write-down of inventories and supplies (Notes 3, 4 and 5)	<b>143</b>	108	389
	<b>2,697</b>	3,982	5,532

## 18. Prepayments

As at December 31, 2011 and 2010, this account consists of:

	2011	2010
	(in million pesos)	
Prepaid taxes	9,101	7,476
Prepaid benefit costs (Notes 3 and 25)	5,654	5,333
Prepaid selling and promotions	907	1,011
Prepaid insurance (Note 24)	156	122
Prepaid rent – net (Notes 3 and 5)	137	53
Prepaid fees and licenses	13	40
Other prepayments	128	62
	<b>16,096</b>	14,097
Less current portion of prepayments (Note 27)	7,227	5,418
Noncurrent portion of prepayments (Note 27)	<b>8,869</b>	8,679

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations less unrecognized net actuarial gains or losses recognized in our consolidated statements of financial position. See *Note 25 – Share-based Payments and Employee Benefits*.

*Agreement between PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5*

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest Holdings, Inc., which is a wholly-owned investee company of PLDT Beneficial Trust Fund, for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. Total prepayment under the advertising placement agreements amounted to Php907 million and Php893 million as at December 31, 2011 and 2010, respectively.

*Option to Purchase Series C Preferred Shares of ProtoStar*

On September 16, 2008, PLDT signed an option to purchase Series C Preferred Shares of ProtoStar pursuant to which PLDT was entitled to subscribe for and purchase 39.7 million Series C Preferred Shares at the exercise price of US\$0.6925 per share during the exercise period. PLDT paid US\$27.5 million to ProtoStar as a deposit to pay the exercise price if PLDT exercised the option or, if not exercised, such payment would be applied as payment of Priority Deposit to ProtoStar under the Space Segment Services Agreement between PLDT and ProtoStar. On May 15, 2009, PLDT formally advised ProtoStar that it will not exercise its option to purchase ProtoStar's Series C Preferred Shares and that it has elected to apply the US\$27.5 million it had paid for such option as Priority Deposit under the Space Segment Services Agreement, which amount will be deemed as full payment of the space segment services upon Commencement Date under said agreement.

On July 29, 2009, ProtoStar and its affiliates ProtoStar Satellite Systems, Inc., ProtoStar I Ltd., ProtoStar II Ltd., ProtoStar Development Ltd. and ProtoStar Asia Pte. Ltd. each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. An auction of ProtoStar's ProtoStar I satellite was held in October 2009 and of ProtoStar's ProtoStar II satellite in December 2009, the proceeds of which were to be distributed to ProtoStar's secured lenders and the balance, if any, to its unsecured lenders. During the pendency of the proceedings, however, the unsecured creditors challenged the perfection of the secured lenders' security over the satellites. Thereafter, settlement negotiations were commenced among ProtoStar, the secured lenders and the unsecured creditors. The parties reached a settlement, the terms of which are embodied in ProtoStar's "Plan of Reorganization." This Plan was confirmed by the bankruptcy court at a hearing held on October 6, 2010 in Delaware. The filing of the bankruptcy case and the eventual sale of the ProtoStar I satellite constitute a breach by ProtoStar of the Space Segment Services Agreement. On this basis, we recognized a full impairment provision of US\$27.5 million, or Php1,304 million, in 2009 with respect to our Priority Deposit to ProtoStar under the Space Segment Services Agreement. On October 22, 2010, PLDT received approximately US\$3.3 million as settlement of its claim and

recognized such as “Other income” in the consolidated income statements. The remaining amount of US\$24.2 million, for which full provision was made in 2009, was permanently written-off in our consolidated statement of financial position.

## 19. Equity

Changes in PLDT’s capital account for the years ended December 31, 2009, 2010 and 2011 are as follows:

	Preferred Stock – Php10 par value per share			Amount (in millions)	Common Stock – Php5 par value per share	
	Series A to II	IV	Total Preferred Stock		Number of Shares	Amount
	Number of Shares				Number of Shares	Amount
<b>Authorized</b>			823	Php8,230	234	Php1,170
<b>Issued</b>						
Balances as at January 1, 2009	405	36	441	Php4,415	189	Php947
Issuance	–	–	–	2	–	–
Conversion	–	–	–	(1)	–	–
<b>Balances as at December 31, 2009</b>	<b>405</b>	<b>36</b>	<b>441</b>	<b>Php4,416</b>	<b>189</b>	<b>Php947</b>
Balances as at January 1, 2010	405	36	441	Php4,416	189	Php947
Issuance	1	–	1	3	–	–
Conversion	–	–	–	–	–	–
<b>Balances as at December 31, 2010</b>	<b>406</b>	<b>36</b>	<b>442</b>	<b>Php4,419</b>	<b>189</b>	<b>Php947</b>
Balances as at January 1, 2011	406	36	442	Php4,419	189	Php947
Issuance	–	–	–	2	28	138
Conversion	–	–	–	(2)	–	–
<b>Balances as at December 31, 2011</b>	<b>406</b>	<b>36</b>	<b>442</b>	<b>Php4,419</b>	<b>217</b>	<b>Php1,085</b>

### *Preferred Stock*

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012. There were 370 shares of Series II 10% Cumulative Convertible Preferred Stock issued as at December 31, 2011, while there were no issued Series II 10% Cumulative Convertible Preferred Stock as at December 31, 2010.

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to II 10% Cumulative Convertible Preferred Stock earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2011 were Php5.00 each per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the PLDT Subscriber Investment Plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series A to II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments (the "Amendments"). The shares of voting preferred stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines. The holders of voting preferred stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of voting preferred stock.

The Special Meeting of Stockholders scheduled on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments, or the Special Meeting, was cancelled by the Board of Directors due to an anticipated lack of quorum. Based on the validated and tabulated proxies reported by PLDT's Transfer Agents, the corporate secretary of PLDT determined that: (1) holders of shares equivalent to 73.27% of the total outstanding common stock had given valid proxies to be represented and vote their shares in the Special Meeting; and (2) the number of shares of preferred stock necessary to bring the total shares represented in person or by proxy and to vote at the Special Meeting to two-thirds of total outstanding capital stock, being the quorum required for the Special Meeting, would most likely not be secured. Under the Corporation Code, holders of preferred shares are also entitled to vote on significant corporate actions, such as the amendment of the Articles of Incorporation, which is the principal item in the agenda for the Special Meeting.

The Board of Directors called for another Special Meeting of Stockholders which will be held on March 22, 2012 for the aforesated purposes.

Upon the approval of the Amendments by the stockholders and the Philippine SEC, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, may determine the specific terms, features and limitations of the Voting Preferred Stock and, as it deems necessary to protect the interest of PLDT and its stakeholders, authorize the issuance of shares of Voting Preferred Stock to Qualified Owners. It is contemplated that the shares of Voting Preferred Stock will have the following other features: (a) entitled to dividends at such rate to be determined by the Board of Directors, payable before any dividends are paid to the holders of Common Stock; (b) not convertible to Common Stock or to any shares of stock of PLDT of any class; (c) redeemable at the option of PLDT; (d) holders will have no pre-emptive right to subscribe or

purchase any shares of stock of any class, or convertible debt, securities or warrants issued, sold or disposed by PLDT; and (e) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to holders of shares of Common Stock.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's 10% Cumulative Convertible Preferred Stock Series A to FF, which were issued pursuant to the PLDT SIP Preferred Shares, effective on January 19, 2012, or the Redemption Date.

The record date for the determination of the holders of outstanding SIP Preferred Shares subject to Redemption, or Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the record date. In accordance with the terms and conditions of the SIP Preferred Shares, PLDT, on the redemption date, paid each of the holders of SIP Preferred Shares as of the Record Date, an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

PLDT has set aside Php5.8 billion, the amount required to fund the redemption price for the SIP Preferred Shares in a trust account in the name of Rizal Commercial Banking Corporation, as trustee. Pursuant to the terms of the trust account, the Trustee will continue to hold in trust, for the benefit of those Holders of SIP Preferred Shares who have failed to claim their redemption price for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on such redemption trust fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

As at January 19, 2012, notwithstanding that any stock certificate representing the SIP Preferred Shares has not been surrendered for cancellation, the SIP Preferred Shares shall no longer be deemed outstanding and the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP Preferred Shares shall forthwith cease and terminate, except only the right to receive the Redemption Price for such SIP Preferred Shares, but without interest thereon.

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock had been redeemed and retired effective January 19, 2012. A total amount of Php105 million was withdrawn from the Trust Account, representing total redemption as at March 6, 2012.

PLDT expects to similarly redeem outstanding shares of 10% Cumulative Convertible Preferred Stock Series GG to II as and when they become eligible for redemption.

### ***Common Stock***

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our core earnings per share, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2011 and 2010. See *Note 8 – Earnings Per Common Share* and *Note 27 – Financial Assets and Liabilities*.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel. See *Note 13 – Business Combinations – PLDT’s Acquisition of Digitel*.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

### Dividends Declared

Our dividends declared for the years ended December 31, 2011, 2010 and 2009 are detailed as follows:

#### December 31, 2011

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos)					
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 25, 2011	February 24, 2011	March 31, 2011	Php1.00	17
Series DD	January 25, 2011	February 10, 2011	February 28, 2011	1.00	3
Series FF	January 25, 2011	February 10, 2011	February 28, 2011	1.00	–
Series GG	January 25, 2011	February 24, 2011	March 31, 2011	1.00	–
Series EE	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series HH	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series A, I, R, W, AA and BB	July 5, 2011	August 3, 2011	August 31, 2011	1.00	128
Series B, F, Q, V and Z	August 2, 2011	September 1, 2011	September 30, 2011	1.00	91
Series E, K, O and U	September 20, 2011	October 7, 2011	October 31, 2011	1.00	44
Series C, D, J, T and X	September 20, 2011	October 20, 2011	November 29, 2011	1.00	57
Series G, N, P and S	November 3, 2011	December 1, 2011	December 29, 2011	1.00	26
Series H, L, M and Y	December 6, 2011	January 3, 2012	January 19, 2012	1.00	42
					408
<b>Final Dividends</b>					
Series A to FF	December 6, 2011	October 10, 2011	January 19, 2012	Php0.0027/day	142
					550
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
Series IV*	January 25, 2011	February 18, 2011	March 15, 2011	Php–	12
	May 10, 2011	May 27, 2011	June 15, 2011	–	12
	August 2, 2011	August 18, 2011	September 15, 2011	–	13
	November 3, 2011	November 18, 2011	December 15, 2011	–	12
					49
<b>Common Stock</b>					
Regular Dividend	March 1, 2011	March 16, 2011	April 19, 2011	Php78.00	14,567
	August 2, 2011	August 31, 2011	September 27, 2011	78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
					41,460
Charged to retained earnings					42,059

\* Dividends were declared based on total amount paid up.

#### December 31, 2010

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos)					
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	Php1.00	17
Series DD	January 26, 2010	February 11, 2010	February 26, 2010	1.00	3
Series EE	March 26, 2010	April 23, 2010	May 31, 2010	1.00	–
Series A, I, R, W, AA and BB	July 7, 2010	August 5, 2010	August 31, 2010	1.00	128
Series B, F, Q, V and Z	August 3, 2010	September 2, 2010	September 30, 2010	1.00	92
Series E, K, O and U	August 31, 2010	September 30, 2010	October 29, 2010	1.00	44
Series C, D, J, T and X	September 28, 2010	October 28, 2010	November 30, 2010	1.00	57
Series G, N, P and S	November 4, 2010	December 2, 2010	December 29, 2010	1.00	26
Series H, L, M and Y	December 7, 2010	January 4, 2011	January 31, 2011	1.00	42
					409

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos)					
<b>Cumulative Non-Convertible Redeemable Preferred Stock</b>					
Series IV*	January 26, 2010	February 19, 2010	March 15, 2010	Php-	12
	May 13, 2010	May 27, 2010	June 15, 2010	-	13
	August 3, 2010	August 18, 2010	September 15, 2010	-	12
	November 4, 2010	November 19, 2010	December 15, 2010	-	12
					49
<b>Common Stock</b>					
Regular Dividend	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00	14,197
	August 3, 2010	August 19, 2010	September 21, 2010	78.00	14,570
Special Dividend	March 2, 2010	March 17, 2010	April 20, 2010	65.00	12,142
					40,909
Charged to retained earnings					41,367

\* Dividends are declared based on total amount paid up.

## December 31, 2009

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos)					
<b>Preferred Stock Subject to Mandatory Redemption</b>					
Series V	March 3, 2009	March 19, 2009	April 15, 2009	Php4.675	-
	June 9, 2009	June 25, 2009	July 15, 2009	4.675	-
	*August 4, 2009	August 22, 2009	September 10, 2009	0.051944 per day	-
Series VI	March 3, 2009	March 19, 2009	April 15, 2009	US\$0.09925	-
	June 9, 2009	June 25, 2009	July 15, 2009	0.09925	-
	August 25, 2009	September 24, 2009	October 15, 2009	0.09925	-
	**November 3, 2009	November 8, 2009	December 8, 2009	Php0.001103 per day	-
Charged to income					-
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 27, 2009	February 26, 2009	March 31, 2009	Php1.00	17
Series DD	January 27, 2009	February 13, 2009	February 27, 2009	1.00	3
Series EE	March 31, 2009	April 30, 2009	May 29, 2009	1.00	-
Series A, I, R, W, AA and BB	July 7, 2009	August 6, 2009	August 28, 2009	1.00	128
Series B, F, Q, V and Z	August 4, 2009	September 1, 2009	September 30, 2009	1.00	91
Series E, K, O and U	August 25, 2009	September 24, 2009	October 30, 2009	1.00	44
Series C, D, J, T and X	September 29, 2009	October 29, 2009	November 26, 2009	1.00	57
Series G, N, P, and S	November 3, 2009	December 3, 2009	December 29, 2009	1.00	26
Series H, L, M and Y	December 8, 2009	January 4, 2010	January 29, 2010	1.00	40
					406
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
Series IV***	January 27, 2009	February 20, 2009	March 15, 2009	Php-	12
	May 5, 2009	May 22, 2009	June 15, 2009	-	13
	August 4, 2009	August 19, 2009	September 15, 2009	-	13
	November 3, 2009	November 20, 2009	December 15, 2009	-	12
					50
<b>Common Stock</b>					
Regular Dividend	March 3, 2009	March 18, 2009	April 21, 2009	Php70.00	13,124
	August 4, 2009	August 20, 2009	September 22, 2009	77.00	14,384
Special Dividend	March 3, 2009	March 18, 2009	April 21, 2009	60.00	11,250
					38,758
Charged to retained earnings					39,214

\* Only the holders of Series V Convertible Preferred Stock whose shares were originally issued on August 22, 2002 and mandatorily converted on August 23, 2009 are entitled to this final dividend.

\*\* Only the holders of Series VI Convertible Preferred Stock whose shares were originally issued on November 8, 2002 and mandatorily converted on November 9, 2009 are entitled to this final dividend.

\*\*\* Dividends are declared based on total amount paid up.

Our dividends declared after December 31, 2011 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos)					
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
Series IV*	January 31, 2012	February 20, 2012	March 15, 2012	Php-	12
<b>10% Cumulative Convertible Preferred Stock</b>					
Series GG	January 31, 2012	February 29, 2012	March 30, 2012	Php1.00	-
<b>Common Stock</b>					
Regular Dividend	March 6, 2012	March 20, 2012	April 20, 2012	Php63.00	13,635
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,376
					24,011
					24,023

\* Dividends were declared based on total amount paid up.

## 20. Interest-bearing Financial Liabilities

As at December 31, 2011 and 2010, this account consists of the following:

	2011	2010
	(in million pesos)	
<b>Long-term portion of interest-bearing financial liabilities:</b>		
Long-term debt (Notes 4, 5, 9, 23 and 27)	91,273	75,879
Obligations under finance leases (Notes 3, 4, 5, 23 and 27)	7	9
	<b>91,280</b>	<b>75,888</b>
<b>Current portion of interest-bearing financial liabilities:</b>		
Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27)	22,893	13,767
Notes payable (Notes 4, 5, 23 and 27)	3,109	-
Obligations under finance leases maturing within one year (Notes 3, 4, 5, 23 and 27)	7	34
	<b>26,009</b>	<b>13,801</b>

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Long-term debt (Note 27)	2,136	2,944
Obligation under finance lease	2	1
Unamortized debt discount at end of year	<b>2,138</b>	<b>2,945</b>

The following table describes all changes to unamortized debt discount for the years ended December 31, 2011 and 2010.

	2011	2010
	(in million pesos)	
Unamortized debt discount at beginning of year	2,945	3,861
Revaluations during the year	187	(16)
Additions during the year	43	114
Accretion during the year included as part of "Financing costs – net – Accretion on financial liabilities – net" (Note 5)	(1,037)	(1,014)
Unamortized debt discount at end of year	<b>2,138</b>	<b>2,945</b>



## Long-term Debt

As at December 31, 2011 and 2010, long-term debt consists of:

Description	Interest Rates	2011		2010	
		(in millions)			
<i>U.S. Dollar Debts:</i>					
Export Credit Agencies-Supported Loans:					
China Export and Credit Insurance Corporation, or Sinosure	US\$ LIBOR + 0.55% to 1.80% in 2011	US\$248	Php10,879	US\$–	Php–
Exportkreditnamnden, or EKN	3.79% and US\$ LIBOR + 0.30% to 0.35% in 2011 and 3.79% in 2010	102	4,483	14	613
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2011	79	3,475	–	–
Finnvera, Plc, or Finnvera	2.99% and US\$ LIBOR + 1.35% in 2011 and 2.99% and US\$ LIBOR + 0.05% to 1.35% in 2010	63	2,775	82	3,590
Others	US\$ LIBOR + 0.35% to 0.40% in 2011	6	256	–	–
		498	21,868	96	4,203
Fixed Rate Notes	8.35% to 11.375% in 2011 and 2010	377	16,567	375	16,450
Term Loans:					
Debt Exchange Facility	2.25% in 2011 and 2010	238	10,472	223	9,791
GSM Network Expansion Facilities	4.70% and US\$ LIBOR + 0.42% to 1.85% in 2011 and 4.515% to 4.70% and US\$ LIBOR + 0.42% to 1.85% in 2010	50	2,201	97	4,230
Others	2.79% + swap rate and US\$ LIBOR + 0.42% to 0.50% in 2011 and 2010	51	2,222	85	3,740
		US\$1,214	Php53,330	US\$876	Php38,414
<i>Philippine Peso Debts:</i>					
Corporate Notes	5.4692% to 9.1038% and PDST-F + 1.25% in 2011 and 5.625% to 9.1038% and PDST-F + 1.25% in 2010		Php38,510		Php29,677
Term Loans:					
Unsecured Term Loans	5.8308% to 8.6271%, PDST-F + 0.30% and BSP overnight rate + 30 bps to 50 bps in 2011 and 6.125% to 8.7792% and PDST-F + 0.30% to 1.50% in 2010		22,277		21,439
Secured Term Loans	PDST-F + 1.375% and AUB's prime rate in 2011 and 2010		49		116
			60,836		51,232
Total long-term debt			114,166		89,646
Less portion maturing within one year (Note 27)			22,893		13,767
Noncurrent portion of long-term (Note 27)			Php91,273		Php75,879

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2011 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	In U.S. Dollar	In Php	In Php	In Php
				(in millions)
2012	314	13,780	9,226	23,006
2013	138	6,044	8,628	14,672
2014	375	16,478	6,225	22,703
2015	65	2,882	9,717	12,599
2016 and onwards	370	16,241	27,081	43,322
	1,262	55,425	60,877	116,302

### *U.S. Dollar Debts:*

#### Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

## *Sinosure*

On December 1, 2005, DMPI signed a US\$23.6 million seven-year Export Credit Agreement to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR, with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders. The facility is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on December 1, 2013. The agreement was drawn on various dates in 2005, 2006, and 2007 in the total amount of US\$23.6 million. The amount of US\$7 million, or Php296 million, remained outstanding as at December 31, 2011.

On May 4, 2006, DMPI signed a US\$12.7 million seven-year Export Credit Agreement to finance the supply of the equipment and software for the expansion of its GSM services in the NCR with the Societe Generale and Calyon as the lenders. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on October 6, 2014. The agreement was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amount of US\$5 million, or Php229 million, remained outstanding as at December 31, 2011.

On June 1, 2006, DMPI signed a US\$12 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on June 1, 2014. The agreement was drawn on November 24, 2006 and October 31, 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amount of US\$4 million, or Php153 million, remained outstanding as at December 31, 2011.

On May 24, 2007, DMPI signed a US\$21 million seven-year Buyer's Credit Agreement to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on May 24, 2015. The agreement was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amount of US\$10 million, or Php457 million, remained outstanding as at December 31, 2011.

On May 24, 2007, DMPI signed a US\$12.1 million seven-year Buyer's Credit Agreement to finance the equipment for the Phase 6 NCR Expansion Project with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on May 24, 2015. The agreement was drawn on various dates in 2008 in the total amount of US\$12.1 million. The amount of US\$6 million, or Php266 million, remained outstanding as at December 31, 2011.

On November 10, 2008, DMPI signed a US\$5.5 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the supply of 3G network in the NCR with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on September 1, 2016. The agreement was drawn on December 19, 2008, December 24, 2008 and November 9, 2009 in the amounts of US\$2.6 million, US\$2.1 million and US\$0.8 million, respectively. The amount of US\$4 million, or Php172 million, remained outstanding as at December 31, 2011.

On November 10, 2008, DMPI signed a US\$4.9 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on September 1, 2016. The agreement was drawn on various dates in 2008 and 2009 in the total amount of US\$4.9 million. The amount of US\$4 million, or Php155 million, remained outstanding as at December 31, 2011.

On November 10, 2008, DMPI signed a US\$23.8 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the Phase 7 Core Expansion Project with ING Bank N.V. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on September 1, 2016. The agreement was drawn on various dates in 2008 and 2009 in the total amount of US\$23.8 million. The amount of US\$17 million, or Php746 million, remained outstanding as at December 31, 2011.

On August 14, 2009, DMPI signed a US\$15.9 million seven-year facility agreement to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender. The facility is covered by a guarantee from Sinosure. The facility is payable over seven years in 14 equal semi-annual installments with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The amount of US\$13 million, or Php581 million, remained outstanding as at December 31, 2011.

On August 14, 2009, DMPI signed a US\$24.7 million seven-year facility agreement to finance the supply of telephone equipment for the Phase 5 NCR Base Station Expansion with Credit Suisse as the lead arranger. The facility is covered by a guarantee from Sinosure. The facility is payable over seven years in 14 equal semi-annual installments with final installment on August 14, 2017. The loan was drawn on various dates in 2009 and 2010 in the total amount of US\$24.7 million. The amount of US\$21 million, or Php930 million, remained outstanding as at December 31, 2011.

On December 16, 2009, DMPI signed a US\$50 million seven-year Buyer's Credit Agreement to finance the equipment and related materials for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects with China Citic Bank Corporation Ltd. as the lender. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on December 17, 2017. The agreement was drawn on June 25, 2010 and December 14, 2010 in the amounts of US\$37 million and US\$11 million, respectively. The undrawn amount of US\$2 million was cancelled. The amount of US\$41 million, or Php1,786 million, remained outstanding as at December 31, 2011.

On September 15, 2010, DMPI signed a US\$117.3 million seven-year Term Loan Facility Agreement to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN; (2) Phase 3 3G; and (3) Phase 8B NCR and SLZ BSS with China Development Bank and HSBC as the lenders. The facility is covered by a guarantee from Sinosure. The agreement is payable over seven and half years in 15 equal semi-annual installments with final installment on April 10, 2019. The agreement was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amount of US\$116 million, or Php5,108 million, remained outstanding as at December 31, 2011.

#### *EKN*

On April 4, 2006, DMPI signed a US\$18.7 million nine-year loan agreement to finance the supply of GSM mobile telephone equipment and related services with Nordea Bank AB (publ), or Nordea Bank, as the lender. The facility is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semi-annual installments with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amount of US\$7 million, or Php329 million, remained outstanding as at December 31, 2011.

On December 20, 2006, DMPI signed a US\$43.2 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao with ING Bank N.V. as the lender. The facility is covered by a guarantee from EKN. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on May 30, 2014. The agreement was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amount of US\$16 million, or Php700 million, remained outstanding as at December 31, 2011.

On December 17, 2007, DMPI signed a US\$51.2 million nine-year Buyer's Credit Agreement to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao with ING Bank N.V., Societe Generale and Calyon as the lenders. The facility is covered by a guarantee from EKN. The agreement is payable over nine years in 18 equal semi-annual installments with final installment on June 30, 2017. The agreement was drawn on various dates in 2008 and 2009 in the total amount of US\$51.11 million. The undrawn amount of US\$0.1 million was cancelled. The amount of US\$32 million, or Php1,416 million, remained outstanding as at December 31, 2011.

On December 17, 2007, DMPI signed a US\$59.2 million nine-year Buyer's Credit Agreement to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project with ING Bank N.V., Societe Generale and Calyon as the lenders. The facility is covered by a guarantee from EKN. The agreement is payable over nine years in 18 equal semi-annual installments with final installment on March 30, 2017. The agreement was drawn on various dates in 2008 and 2009 in the total amount of US\$59 million. The undrawn amount of US\$0.1 million was cancelled. The amount of US\$38 million, or Php1,631 million, remained outstanding as at December 31, 2011.

On November 25, 2008, Smart signed a US\$22 million five-year term loan facility to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008. The amounts of US\$8 million, US\$13 million and US\$1 million were drawn on December 15, 2008, August 5, 2009 and September 1, 2009, respectively. This facility is payable semi-annually in ten equal installments commencing six months from December 10, 2008. The outstanding balance under the facility amounted to US\$9 million, or Php414 million, and US\$14 million, or Php613 million, both net of unamortized debt discount, as at December 31, 2011 and 2010, respectively.

On June 10, 2011, Smart signed a US\$49 million five-year term loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank as the original lender, arranger and facility agent. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No avilment has been made on this facility as at December 31, 2011.

#### *EKN and SEK*

On April 28, 2009, DMPI signed a US\$96.6 million eight and a half-year loan agreement to finance the supply of GSM mobile telephone equipment and related services with Nordea Bank and ING Bank N.V. as the lenders. The facility is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. The agreement is comprised of Tranche 1 and Tranche 2 in the total amounts of US\$43 million and US\$53.6 million, respectively. Both tranches are payable over eight and a half years in 17 equal semi-annual installments with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amount of US\$79 million, or Php3,475 million, remained outstanding as at December 31, 2011.

#### *Finnvera, Plc, or Finnvera*

On May 14, 2009, Smart signed a US\$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. The amounts of US\$29 million, or Php1,290 million, and US\$39 million, or Php1,703 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

On October 9, 2009, Smart signed a US\$50 million five-year term loan facility to finance GSM equipment and services contracts with FEC guaranteed by Finnvera for 100% political and commercial risk cover. The facility was awarded to Citicorp as the arranger and was drawn on April 7, 2010 and was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual payments. The amounts of US\$34 million, or Php1,485 million, and US\$43 million, or Php1,887 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

### *Others – Export Credit Agencies*

#### *Compagnie Francaise d' Assurance pour le Commerce Exterieur, or COFACE*

On August 18, 2005, DMPI signed a US\$19 million seven-year Export Credit Agreement to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project with ING Bank N.V., Societe Generale and Calyon as the lenders. The facility is covered by a guarantee from COFACE, the export-credit agency of France. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on February 8, 2013. The agreement was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The amount of US\$4 million, or Php171 million, remained outstanding as at December 31, 2011.

#### *Atradius N.V., or Atradius*

On July 3, 2006, DMPI signed a US\$6 million seven-year Buyer's Credit Agreement to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network with ING Bank N.V. as the lender. The facility is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The agreement is payable over seven years in 14 equal semi-annual installments with final installment on June 27, 2014. The agreement was drawn on September 29, 2006 and August 28, 2007 in the amounts of US\$3.5 million and US\$1.9 million, respectively. The undrawn amount of US\$0.6 million was cancelled. The amount of US\$2 million, or Php85 million, remained outstanding as at December 31, 2011.

### Fixed Rate Notes

PLDT has the following non-amortizing fixed rate notes outstanding as at December 31, 2011 and 2010:

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2011</u>		<u>2010</u>	
			(in millions)			
US\$234,259,000	8.350%	March 6, 2017	<b>US\$232</b>	<b>Php10,189</b>	US\$231	Php10,149
US\$145,789,000	11.375%	May 15, 2012	<b>145</b>	<b>6,378</b>	144	6,301
			<b>US\$377</b>	<b>Php16,567</b>	US\$375	Php16,450

### Term Loans

#### *US\$283 Million Term Loan Facility, or Debt Exchange Facility*

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid a cash amount of US\$1.5 million, or Php84 million and issued new debt of US\$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million.

The outstanding balance of the Facility amounted to US\$238 million, or Php10,472 million, and US\$223 million, or Php9,791 million, both net of unamortized debt discount, as at December 31, 2011 and 2010, respectively. The Facility will be payable in full on June 30, 2014.

#### *GSM Network Expansion Facilities*

On August 8, 2005, Smart signed a US\$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US\$30 million. The amount of US\$6 million, or Php263 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on July 11, 2011.

On July 31, 2006, Smart signed a U.S. Dollar term loan facility for US\$44 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is FEC with ABN AMRO Bank N.V., Standard Chartered Bank (Hong Kong) Ltd., Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the lead arrangers. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on July 15, 2011. The facility was drawn on November 10, 2006 for the full amount of US\$44 million. The amount of US\$9 million, or Php387 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on July 15, 2011.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company, or Metrobank, to finance the related Phase 9 GSM facility for an amount of US\$50 million. The facility is a five-year loan payable in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on October 10, 2012. The facility was drawn on October 10, 2007 for the full amount of US\$50 million. The amounts of US\$11 million, or Php488 million, and US\$22 million, or Php973 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

On October 10, 2007, Smart signed a US\$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd. as the facility agent. The full amount of the facility was drawn on March 10, 2008. The loan is payable over five years in ten equal semi-annual payments with final repayment on March 11, 2013. The amounts of US\$15 million, or Php657 million, and US\$25 million, or Php1,091 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

On November 27, 2008, Smart signed a US\$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with FEC. The facility was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered Bank (Hong Kong) Ltd., Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments with final repayment on January 23, 2014. The facility was drawn on January 23, 2009 and May 5, 2009 in the amounts of US\$5 million and US\$45 million, respectively. The amounts of US\$25 million, or Php1,090 million, and US\$35 million, or Php1,516 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

On June 6, 2011, Smart signed a US\$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender. The loan is payable over five years in eight equal semi-annual installments with the first installment due on the eighteenth month from signing date. No availment has been made on this facility as at December 31, 2011.

On August 19, 2011, Smart signed a US\$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with FEC as the lender. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, LTD., HSBC and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at December 31, 2011.

#### *Other Term Loans*

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for the capital expenditure requirements of PLDT. Two separate drawings of US\$50 million each was drawn from the facility on March 27, 2008 and April 10, 2008 and is payable over five years in ten equal semi-annual installments with final repayment on March 27, 2013. The amounts of US\$30 million, or Php1,318 million, and US\$50 million, or Php2,191 million, remained outstanding as at December 31, 2011 and 2010, respectively.

On July 15, 2008, PLDT signed a loan agreement amounting to US\$50 million with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US\$15 million and the balance of US\$35 million was drawn on September 30, 2008. This loan is payable in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on July 22, 2013. The amounts of US\$21 million, or Php904 million, and US\$32 million, or Php1,417 million, remained outstanding as at December 31, 2011 and 2010, respectively.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East for a total of US\$19 million, which will mature on various dates from June 30, 2013 to September 30, 2014. The amount of US\$3 million, or Php132 million, remained outstanding as at December 31, 2010. BOW was deconsolidated from the Smart Group in June 2011.

### ***Philippine Peso Debts:***

#### *Corporate Notes*

##### *Php5,000 Million Fixed Rate Corporate Notes*

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes have been used primarily for Smart's capital expenditures for network improvement and expansion. The amounts of Php4,963 million and Php4,962 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

##### *Php5,000 Million Fixed Rate Corporate Notes*

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart's capital expenditures for network upgrade and expansion. The amounts of Php4,827 million and Php4,867 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

##### *Php5,000 Million Fixed Rate Corporate Notes*

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amounts of Php4,952 million and Php4,976 million remained outstanding as at December 31, 2011 and 2010, respectively.

##### *Php3,000 Million Corporate Notes*

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php2,997 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The Series A1, B1, and B2 notes were paid in full on January 10, 2011, July 8, 2011 and September 1, 2011, respectively.

*Php7,000 Million Fixed Rate Corporate Notes*

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amounts of Php6,781 million and Php6,891 million remained outstanding as at December 31, 2011 and 2010, respectively.

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility were used to finance capital expenditures and/or to refinance PLDT's loan obligations which were also used to finance capital expenditures for network expansion and improvement. The amount of Php2,500 million each remained outstanding as at December 31, 2011 and 2010.

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility was used primarily to finance Smart's capital expenditures for network improvement and expansion. The amounts of Php2,487 million and Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

*Php2,000 Million Fixed Rate Corporate Notes*

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011. Tranche B amounting to Php1,000 million was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The aggregate amount of Php2,000 million remained outstanding as at December 31, 2011. The facility is payable in full, five years from the respective issue dates.

*Php5,000 Million Fixed Rate Corporate Notes*

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A 5-year notes amounting to Php3,435 million, Series B 7-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at December 31, 2011.

*Php5,000 Million Fixed Rate Corporate Notes*

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A 5-year notes amounting to Php2,795 million, Series B 7-year notes amounting to Php230 million and Series C 10-year notes amounting to Php1,975 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at December 31, 2011.



## Term Loans

### *Unsecured Term Loans*

#### *Php2,500 Million Term Loan Facility*

On August 14, 2006, Smart signed a Philippine Peso term loan facility with Metrobank amounting to Php2,500 million to finance the related Phase 9 GSM facility. The facility is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on December 9, 2011. The amount of Php555 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The facility was paid in full on December 9, 2011.

#### *Php2,500 Million Term Loan Facility*

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metrobank to finance capital expenditures for an amount of Php2,500 million, which was drawn in full on November 13, 2008. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on November 13, 2013. The amounts of Php1,248 million and Php1,870 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

#### *Php2,400 Million Term Loan Facility*

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The amounts of Php1,022 million and Php1,533 million remained outstanding as at December 31, 2011 and 2010, respectively.

#### *Php3,000 Million Term Loan Facility*

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The amounts of Php1,333 million and Php2,000 million remained outstanding as at December 31, 2011 and 2010, respectively.

#### *Php2,000 Million Term Loan Facility*

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank, or PNB, amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million and the balance of Php1,500 million was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on December 19, 2013. The amounts of Php941 million and Php1,412 million remained outstanding as at December 31, 2011 and 2010, respectively.

*Php2,500 Million Term Loan Facility*

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc., or BDO, amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at December 31, 2011 and 2010.

*Php1,500 Million Term Loan Facility*

On May 12, 2009, Smart signed a Philippine Peso term loan facility with BDO amounting to Php1,500 million to finance capital expenditures, which was fully drawn on May 20, 2009. The facility is a three-year loan, payable in full upon maturity on May 20, 2012. The amounts of Php1,498 million and Php1,494 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

*Php1,000 Million Term Loan Facility*

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amount of Php997 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on January 3, 2011.

*Php1,000 Million Term Loan Facility*

On May 15, 2009, Smart signed a Philippine Peso term loan facility with PNB amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full upon maturity on July 2, 2016. The amount of Php996 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on January 3, 2011.

*Php2,500 Million Term Loan Facility*

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at December 31, 2011 and 2010.

*Php1,500 Million Term Loan Facility*

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments commencing on September 15, 2010 with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009. The amounts of Php971 million and Php1,324 million remained outstanding as at December 31, 2011 and 2010, respectively.

*Php500 Million Term Loan Facility*

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at December 31, 2011 and 2010.

*Php1,000 Million Term Loan Facility*

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metrobank to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The amounts of Php688 million and Php935 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and 2010, respectively.

*Php2,000 Million Term Loan Facility*

On September 18, 2009, PLDT signed a loan agreement with BPI amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php1,412 million and Php1,882 million remained outstanding as at December 31, 2011 and 2010, respectively.

*Php1,000 Million Term Loan Facility*

On November 23, 2009, PLDT signed a loan agreement with BPI amounting to Php1,000 million to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php706 million and Php941 million remained outstanding as at December 31, 2011 and 2010, respectively.

*Php1,500 Million Term Loan Facility*

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metrobank to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011 and remained outstanding as at December 31, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

*Php2,000 Million Term Loan Facility*

On March 24, 2011, Smart signed a Philippine Peso term loan facility with PNB to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011 and remained outstanding as at December 31, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

*Php300 Million Term Loan Facility*

On April 4, 2011, PLDT signed a loan agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, amounting to Php300 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The amount of Php300 million was fully drawn on April 28, 2011 and remained outstanding as at December 31, 2011.

*Php500 Million Term Loan Facility*

On April 4, 2011, PLDT signed a loan agreement with Manulife amounting to Php500 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at December 31, 2011.

*Php1,000 Million Term Loan Facility*

On April 12, 2011, Digital signed a Php1,000 million five-year Term Loan Facility Agreement to finance additional capital expenditure requirements with Metrobank as the lender. The principal is payable upon maturity or on June 23, 2016. The agreement was drawn on various dates in June 2011 in the total amount of Php710 million and remained outstanding as at December 31, 2011. The undrawn amount of Php290 million was cancelled.

### *Php2,000 Million Term Loan Facility*

On April 14, 2011, Digitel signed a Php2,000 million five-year Term Loan Facility Agreement to finance the capital expenditures and/or refinance existing loan obligations with BDO as the lender. The principal is payable upon maturity or on May 26, 2016. The agreement was drawn on various dates in 2011 in the total amount of Php1,948 million and remained outstanding as at December 31, 2011. The undrawn amount of Php52 million was cancelled.

### *Secured Term Loans*

On June 7, 2007, AGS obtained a medium term loan facility with BPI amounting to Php150 million, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. AGS is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. AGS and the bank has agreed to the following terms: (a) pledge of AGS's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of AGS. The outstanding principal balance of the loan was Php49 million and Php116 million as at December 31, 2011 and 2010, respectively.

## **Notes Payable**

### *Vendor Financing*

On January 5, 2006, a Promissory Note in the amount of US\$1.8 million was issued by DMPI in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments with final installment on December 20, 2011. There are no outstanding amounts under this Promissory Note as at December 31, 2011.

On January 5, 2006, a Promissory Note in the amount of US\$1.3 million was issued by DMPI in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments with final installment on February 22, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million as at December 31, 2011 was paid in full on February 22, 2012.

On January 5, 2006, a Promissory Note in the amount of US\$1.2 million was issued by DMPI in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd. dated December 1, 2005 as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments with final installment on June 28, 2012. The amount of US\$0.1 million, or Php5 million, remained outstanding as at December 31, 2011.

DMPI and DTPI had an outstanding balance of trust receipts of Php1,562 million as at December 31, 2011, which will mature on various dates from January 4, 2012 to January 19, 2013.

On April 1, 2011, SPI availed of short-term loans from BPI and Security Banking Corporation, or Security Bank, amounting to US\$9 million and US\$16 million, respectively. Additional loan was availed last October 28, 2011 from Security Bank amounting to US\$10 million. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month. The aggregate amount of US\$25 million, or Php1,537 million, remained outstanding as at December 31, 2011.

## Debt Covenants

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

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 47% and 43% of PLDT's total consolidated debts as at December 31, 2011 and 2010, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; (e) merging or consolidating with any other company; (f) entering into transactions with stockholders and affiliates; and (g) entering into sale and leaseback transactions.

Furthermore, certain of PLDT's debt instruments contain provisions wherein PLDT may be required to repurchase or prepay certain indebtedness in case of a change in control of PLDT, while certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

PLDT's debt instruments and guarantees for DMPI loans, as discussed in *Note 10 – Investments in Associates and Joint Ventures*, also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair guarantors' ability to perform their obligations under its loan agreements.

DMPI's debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due under the loans, including: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if DMPI or PLDT, as guarantor, is in default under another loan agreement; (b) failure by PLDT to comply with certain financial ratio covenants; (c) occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs DMPI's and PLDT's ability to perform its obligations under its loan agreements; (d) change of control; and (e) other typical events of default including the commencement of bankruptcy, insolvency, liquidation, or winding up proceedings by DMPI.

As at December 31, 2011, we were in compliance with all of our debt covenants.

### Obligations Under Finance Leases

The consolidated future minimum payments for finance leases as at December 31, 2011 are as follows:

Year	(in million pesos)
2012	8
2013	4
2014	2
2015	1
2016	1
Total minimum finance lease payments (Note 27)	16
Less amount representing unamortized interest	2
Present value of net minimum finance lease payments (Notes 3 and 27)	14
Less obligations under finance leases maturing within one year (Notes 9 and 27)	7
Long-term portion of obligations under finance leases (Notes 9 and 27)	7

#### *Long-term Finance Lease Obligations*

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and SPi Group have finance lease obligations in the aggregate amounts of Php16 million and Php18 million as at December 31, 2011 and 2010, respectively. See *Note 9 – Property, Plant and Equipment*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

## 21. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2011 and 2010, this account consists of:

	2011	2010
	(in million pesos)	
Accrual of capital expenditures under long-term financing	20,128	12,040
Provision for asset retirement obligations (Notes 3 and 9)	2,107	1,344
Unearned revenues (Note 23)	172	114
Others	235	69
	<b>22,642</b>	<b>13,567</b>

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2011 and 2010:

	2011	2010
	(in million pesos)	
Provision for asset retirement obligations at beginning of year	1,344	1,204
Business combinations (Note 13)	614	–
Accretion expenses (Note 5)	122	97
Additional liability recognized during the year (Note 28)	29	49
Settlement of obligations	(2)	(6)
Provision for asset retirement obligations at end of year (Note 3)	<b>2,107</b>	<b>1,344</b>

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## 22. Accounts Payable

As at December 31, 2011 and 2010, this account consists of:

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	2011	2010
	(in million pesos)	
Suppliers and contractors (Note 27)	25,476	20,957
Carriers (Note 27)	1,642	1,866
Taxes (Notes 26 and 27)	1,555	2,114
Related parties (Notes 24 and 27)	626	244
Others	255	623
	<b>29,554</b>	<b>25,804</b>

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## 23. Accrued Expenses and Other Current Liabilities

As at December 31, 2011 and 2010, this account consists of:

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	2011	2010
	(in million pesos)	
Accrued utilities and related expenses (Notes 24 and 27)	34,875	19,941
Accrued taxes and related expenses (Notes 26 and 27)	5,371	2,236
Unearned revenues (Note 21)	5,664	4,698
Mandatory tender offer option liability (Note 28)	4,940	–
Accrued employee benefits (Notes 3, 25 and 27)	4,463	3,853
Accrued interests and other related costs (Notes 20 and 27)	1,122	1,028
Liability recognized for contingent consideration arising from business acquisitions (Note 14)	–	1,632
Others	1,836	2,571
	<b>58,271</b>	<b>35,959</b>

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Accrued utilities and related expenses pertain to cost incurred for repairs and maintenance (mostly pertaining to electricity and water consumption), selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

### *Liability Recognized for Contingent Consideration Arising from Business Acquisitions*

Contingent consideration for business acquisitions was recognized in relation to SPi's acquisition cost of Springfield and Laguna Medical on April 12, 2007 and August 31, 2009, respectively.

SPi acquired 100% of Springfield plus contingent consideration with fair value at acquisition date of US\$18 million, or Php894 million. The adjusted fair value of contingent consideration, as revised after effecting adjustments on forecasted earn-out and accretion, amounted to US\$35 million, or Php1,547 million, as at December 31, 2010.

SPi acquired 80% of Laguna Medical with a mandatory Put-Call option in respect of the remaining 20% of the outstanding common stock of Laguna Medical. The estimated fair value of the contingent consideration from the mandatory Put-Call option at the acquisition date amounted to US\$5.4 million, or Php257 million. The adjusted fair value of contingent consideration after the accretion amounted to US\$1.9 million, or Php85 million, as at December 31, 2010.

All the remaining contingent considerations were paid in full last July 2011.

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## 24. Related Party Transactions

### a. *Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA amounted to Php105 million, Php122 million and Php158 million for the years ended December 31, 2011, 2010 and 2009, respectively. Under the Amended ATPA, the outstanding obligations of PLDT amounted to Php147 million and Php140 million as at December 31, 2011 and 2010, respectively. See *Note 5 – Income and Expenses*.

### b. *Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to Php2,319 million and Php2,438 million for the years ended December 31, 2011 and 2010, respectively, while total electricity costs amounted to Php911 million for the period from July 14, 2009 (the date Meralco became an associate of PCEV) to December 31, 2009. Under these agreements, the outstanding utilities payable amounted to Php271 million and Php183 million as at December 31, 2011 and 2010, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts amounted to Php226 million and Php199 million for the years ended December 31, 2011 and 2010, respectively, while Php67 million for the period from July 14, 2009 to December 31, 2009. Under these agreements, the outstanding obligations amounted to Php6 million and Php111 million as at December 31, 2011 and 2010, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures* for additional transactions involving Meralco.

### c. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest for the years ended December 31, 2011, 2010 and 2009 are as follows:



1. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO.* Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition.* NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- *Business Cooperation.* PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- *Additional Rights of NTT DOCOMO.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:
  1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
  2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;

3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 21% of PLDT's outstanding common stock as at December 31, 2011.

- *Change in Control.* Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A "Hostile Transferee" is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.
- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

## 2. *Advisory Service Agreement between NTT DOCOMO and PLDT*

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php72 million for the year ended December 31, 2011 and Php75 million each for the years ended December 31, 2010 and 2009. Under this agreement, the outstanding obligations of PLDT amounted to Php8 million and Php13 million as at December 31, 2011 and 2010, respectively.

### 3. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;
- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines;
- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses; and
- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant.

Total fees under these agreements amounted to Php102 million for the year ended December 31, 2011 and Php114 million each for the years ended December 31, 2010 and 2009. Under these agreements, the outstanding obligations of PLDT amounted to Php41 million and Php44 million as at December 31, 2011 and 2010, respectively.

### 4. *Agreement between Smart and Asia Link B.V., or ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which upon its expiration on February 23, 2008 was renewed until February 23, 2012 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to 1% of the consolidated net revenues of Smart. Total service fees charged to operations under this agreement amounted to Php581 million and Php615 million for the years ended December 31, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of Smart amounted to Php234 million and Php200 million as at December 31, 2011 and 2010, respectively.

### 5. *Agreements Relating to Insurance Companies*

Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php230 million, Php328 million and Php404 million for the years ended December 31, 2011, 2010 and 2009, respectively. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at March 31, 2011 and December 31, 2010, while one director of PLDT has direct/indirect interests in or serves as a director/officer of Gotuaco as at December 31, 2010.

d. *Others*

See *Note 18 – Prepayments* for other related party transactions.

***Compensation of Key Officers of the PLDT Group***

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
		(in million pesos)	
Short-term employee benefits	820	664	593
Post-employment benefits (Note 25)	33	25	33
Share-based payments and other long-term employee benefits (Note 25)	–	277	418
Total compensation paid to key officers of the PLDT Group	853	966	1,044

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as an expenses during the reporting period related to key management personnel.

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**25. Share-based Payments and Employee Benefits**

***Share-based Payments***

On August 28, 2006, the PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, 2007 to 2009 LTIP, upon endorsement of the ECC, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the 2007 to 2009 Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle.

The value of the reward and accrued as at December 31, 2009, was completed in accordance with the formula prescribed in 2007 to 2009 LTIP, subject to the minimum and maximum award level to be granted, following the terms and formula as described therein. The fair value of the 2007 to 2009 LTIP were estimated using an option pricing model, which considered annual stock volatility, risk-free interest rates, dividends yield, the remaining life of options and share price. The cost per share of the 2007 to 2009 LTIP, which amounted to Php1,029 as at December 31, 2009, was based on the computed minimum award level. The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million for the year ended December 31, 2009. The outstanding 2007 to 2009 LTIP liability of Php4,582 million as at December 31, 2009 was fully paid in April 2010. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions* and *Note 5 – Income and Expenses*.

## Pension

### Defined Benefit Pension Plans

We have defined benefit pension plans, covering substantially all of our permanent and regular employees, excluding those employees of Smart and certain of its subsidiaries, which require contributions to be made to a separate administrative fund.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
	(in million pesos)		
Changes in present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of year	14,604	17,399	10,917
Interest costs on benefit obligation	1,164	1,559	1,193
Current service costs	812	997	643
Business combinations and others (Note 13)	45	–	19
Actual benefits paid/settlements	(203)	(2,504)	(93)
Actuarial losses (gains) on obligations	(760)	(2,855)	4,720
Curtailement	–	8	–
<b>Present value of defined benefit obligations at end of year</b>	<b>15,662</b>	<b>14,604</b>	<b>17,399</b>
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of year	20,001	19,980	7,168
Expected return on plan assets	2,192	2,340	673
Actuarial gains on plan assets	1,690	179	3,366
Actual contributions	26	(17)	8,866
Actual benefits paid/settlements	(203)	(2,481)	(93)
<b>Fair value of plan assets at end of year</b>	<b>23,706</b>	<b>20,001</b>	<b>19,980</b>
Surplus status – net	(8,044)	(5,397)	(2,581)
Unrecognized net actuarial gains (losses) (Note 3)	2,886	479	(2,474)
	(5,158)	(4,918)	(5,055)
Accrued benefit costs (Note 3)	496	415	359
Prepaid benefit costs (Notes 3 and 18)	5,654	5,333	5,414
Components of net periodic benefit costs:			
Interest costs on benefit obligation	1,164	1,559	1,193
Current service costs	812	997	643
Net actuarial losses (gains) recognized	(9)	23	(3)
Expected return on plan assets	(2,192)	(2,340)	(673)
Event gains – net	–	(62)	–
<b>Net periodic benefit costs (income) (Notes 3 and 5)</b>	<b>(225)</b>	<b>177</b>	<b>1,160</b>

Actual gain on plan assets amounted to Php3,882 million for the year ended December 31, 2011, while actual return on plan assets was Php2,519 million and Php4,036 million for the years ended December 31, 2010 and 2009, respectively.

The present value of defined benefit obligation, fair values of assets and experience adjustment as at and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 are as follows:

	2011	2010	2009	2008	2007
	(in million pesos)				
Present value of defined benefit obligation	15,662	14,604	17,399	10,917	10,160
Fair value of assets	23,706	20,001	19,980	7,168	8,519
Unfunded (surplus) status – net	(8,044)	(5,397)	(2,581)	3,749	1,641
Experience adjustment arising on:					
Liability (gain) loss due to experience as percentage of defined benefit obligation	(1.43%)	(1.43%)	5.10%	(7.23%)	0.05%
Asset (gain) loss due to experience as percentage of plan assets	(3.48%)	0.77%	16.86%	(35.66%)	14.01%

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Average remaining working years of covered employee	19	19	18
Expected rate of return on plan assets	8%	11%	12%
Discount rate	6%	8%	9%
Rate of increase in compensation	6%	8%	9%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The assets of the Beneficial Trust Fund established for PLDT's pension plan include investments in shares of stocks of PLDT with fair values amounting to Php427 million and Php428 million as at December 31, 2011 and 2010, respectively, which represent about 4% and 2%, respectively, of such beneficial trust fund's net assets available for plan benefits.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments, listed equity securities and fixed income investments.

The allocation of the fair value of the beneficial trust fund's assets for the PLDT pension plan as at December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Investments in listed and unlisted equity securities	96%	70%	78%
Temporary cash investments	3%	24%	7%
Investments in debt and fixed income securities	1%	2%	9%
Investments in mutual funds	–	1%	1%
Investments in real estate	–	3%	5%
	100%	100%	100%

#### *Defined Contribution Plan*

Smart and certain of its subsidiaries contributions to the plan are made based on the employee's years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641, otherwise known as "The Retirement Pay Law." As at December 31, 2011 and 2010, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

The plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The allocation of the fair value of the beneficial trust fund's assets for Smart and certain of its subsidiaries pension plan as at December 31, 2011 and 2010 is as follows:

	2011	2010	2009
Investments in debt and fixed income securities	57%	58%	61%
Investments in listed and unlisted equity securities	29%	37%	34%
Others	14%	5%	5%
	100%	100%	100%

Smart and certain of its subsidiaries currently expect to make approximately Php199 million of cash contributions to their pension plans in 2012.

#### *Pension Benefit Costs*

Net consolidated pension benefit costs (income) for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
		(in million pesos)	
Expense recognized for defined benefit plans	96	177	1,160
Expense recognized for defined contribution plans	187	59	146
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	283	236	1,306
Consolidated pension benefit income	321	-	-
Net consolidated pension benefit costs (income)	(38)	236	1,306

#### *Other Long-term Employee Benefits*

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets. LTIP costs recognized for the years ended December 31, 2010 and 2009 amounted to Php1,392 million and Php1,833 million, respectively, while the total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at December 31, 2010. Based on our latest projection, the profit targets for the covered Performance Cycle is no longer achievable, thus, accrued LTIP cost as at December 31, 2010 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions* and *Note 5 – Income and Expenses*.

## **26. Provisions and Contingencies**

#### *NTC Supervision and Regulation Fees, or SRF*

Since 1994, following the rejection of PLDT’s formal protest against the assessments by the NTC of SRF, PLDT and the NTC have been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT’s opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT’s capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on December 4, 2007, held that the computation of the SRF should be based on the outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, the NTC assessed PLDT the total amount of Php2,870 million as SRF, which included penalties and interest. On April 3, 2008, PLDT paid NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but did not pay the penalties and interest assessed by the NTC. PLDT, through counsel, believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments of the same. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the Petition, praying that the NTC be restrained from enforcing or implementing its assessment letter of February 29, 2008, and demand letters dated April 14, 2008 and June 18, 2008, all demanding payment of SRF including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said assessment letter and demand letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's letters-assessments dated February 29, 2008, April 14, 2008 and June 18, 2008. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals. Instead, the NTC, through the Solicitor General, filed a petition for review directly with the Supreme Court. PLDT received a copy of the petition on July 29, 2010, and after receiving the order of the Supreme Court to file its comment, filed its Comment on the petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011, which was received by PLDT on September 6, 2011. PLDT filed a Rejoinder on October 12, 2011. This case is still pending with the Supreme Court.

#### *PLDT's Local Business and Franchise Tax Assessments*

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082.

PLDT believes that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, PLDT has paid a total amount of Php1,016 million as at December 31, 2011 for local franchise tax covering prior periods up to December 31, 2011.

As at December 31, 2011, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. The City of Tuguegarao has filed a Motion for Reconsideration which was denied by the court in its Order dated March 2, 2009. The City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. The motion to dismiss is now submitted for resolution by the honorable court. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. PLDT received the City of Tuguegarao's Answer with Counterclaim on October 18, 2011 and PLDT filed its Reply to contest the allegations in its Answer



with Counterclaim. Both parties have filed their respective Memorandum on the issue of Jurisdiction raised by the City of Tuguegarao and a judicial dispute resolution conference is set on April 3, 2012 after the parties failed to settle the case in the mediation proceedings.

Moreover, PLDT also contested the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction specifically that of the City of Tuguegarao, in the amount of Php3 million for the years 1999 to 2006. The RTC in its decision dated February 25, 2009, ruled in favor of PLDT, stating that the Province of Cagayan can no longer tax PLDT for transactions taking place in the City of Tuguegarao. The Province of Cagayan filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 7, 2009. The Province of Cagayan filed a Petition for Review before the CTA. After filing its Comment and the submission of the respective memoranda of both parties, PLDT received the Decision of the CTA on September 20, 2010 which affirmed with modifications the Decision of the RTC. Though said Decision affirmed that the Province of Cagayan cannot impose franchise tax on gross receipts realized in the City of Tuguegarao, the CTA ruled that PLDT is subject to surcharge and interest for the years 1999 to 2004 thereby reducing the amount refundable to PLDT from Php2.8 million to Php1 million. Both parties filed a partial motion for reconsideration of the said decision as well as comment on the other party's motion. In a resolution dated January 27, 2011, the CTA partially granted the motion for reconsideration of PLDT and ruled that PLDT is entitled to a tax credit certificate in the amount of Php1 million. PLDT has filed a Motion for the Issuance of Writ of Execution before the Regional Trial Court of Makati City which is set for hearing on March 21, 2012.

#### *Smart's Local Business and Franchise Tax Assessments*

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In 2008 and 2009, the City of Makati sent letters to Smart for alleged franchise tax liability. Smart replied and refuted the alleged franchise tax liability based on the *Smart vs. City of Makati* case and its BOI registration dated May 3, 2001.

In August 2009, the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued a Notice of Assessment dated October 23, 2009, which Smart protested. On February 8, 2010, Smart received a Revised Notice of Assessment. Smart contested the revised deficiency local tax assessment on February 15, 2010. There were several letters and meetings between the City of Makati and Smart on the matter.

On August 3, 2010, however, while the parties were still engaged in discussions over the assessment, Smart received the City of Makati's Notice of Distraint and Levy dated July 23, 2010. Smart sent a letter to the City of Makati on August 10, 2010 inquiring on the status of Smart's request for reinvestigation and requested for a meeting. On August 19, 2010, Smart's representatives met with the City of Makati officials and were informed that its decision on the matter is final.

On September 1, 2010, Smart filed an Appeal with application for the issuance of a Temporary Restraining Order and Writ of Preliminary Injunction before the RTC of the City of Makati (Branch 133) docketed as SCA No. 10-852. On September 6, 2010, the RTC of the City of Makati (Branch 133) promulgated an Order granting the issuance of a temporary restraining order for 20 days directing the City of Makati and the City Treasurer to maintain the status quo until a hearing can be had to determine the propriety of injunctive relief conditioned upon posting a bond by Smart. In an Order dated September 23, 2010, the RTC of the City of Makati (Branch 133) issued a Writ of Preliminary Injunction conditioned upon posting a bond by Smart. Smart submitted the bond with the RTC of the City of Makati (Branch 133) on October 4, 2010. The City of Makati filed a Motion for Reconsideration of the Order dated September 23, 2010, which was denied.

Meanwhile, the City of Makati filed a Motion to Dismiss dated September 15, 2010 and a Motion to Inhibit dated September 21, 2010, which were both denied as well as the Motions for Reconsideration from the Orders denying the said motions.

Thus, the City of Makati filed with the Court of Appeals a Petition for Certiorari [With Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated December 16, 2010, seeking to annul the orders of the RTC of the City of Makati.

In a decision promulgated on July 26, 2011, the Court of Appeals dismissed the Petition of Makati City, et al. for lack of jurisdiction. The City of Makati moved for reconsideration but, the motion was denied in a resolution dated December 6, 2011. On December 22, 2011, the City of Makati filed a Petition for Review on Certiorari with the Supreme Court, challenging the findings of the Court of Appeals.

In the RTC case, Smart and the City of Makati filed a Joint Motion for the Court to render judgment based on compromise agreement. On January 20, 2012, the RTC of the City of Makati issued its Judgment finding the compromise agreement meritorious and ordered both parties to comply with the terms and conditions of the agreement. With the compliance to the terms and conditions, the audit of Smart's local tax liabilities by the City of Makati was terminated.

Meanwhile, Smart also received similar local franchise tax assessments issued by the City of Iloilo. The RTC of Iloilo likewise ruled in favor of Smart in its Decision dated January 19, 2005 (Civil Case No. 02-27144) declaring Smart as exempt from payment of local franchise tax. The City of Iloilo appealed the Decision and the Supreme Court, on February 27, 2009, (G.R. No. 167260) ruled that Smart is liable to pay the local franchise tax to the City of Iloilo. On April 2, 2009, Smart filed its Motion for Reconsideration. On July 1, 2009, the Supreme Court's Special Second Division issued a Resolution denying Smart's Motion for Reconsideration. In accordance with this Decision, Smart paid the City of Iloilo.

In 2002, Smart filed a special civil action for declaratory relief for the ascertainment of its rights and obligations under the Tax Code of the City of Davao. The relevant section of Smart's franchise provided that the grantee shall pay a franchise tax equivalent to 3% of all gross receipts of the business transacted under the franchise by the grantee and the said percentage shall be in lieu of all taxes on the franchise or earnings thereof. On September 16, 2008, the Supreme Court's Third Division ruled that Smart is liable for local franchise tax since the phrase "*in lieu of all taxes*" merely covers national taxes and was rendered inoperative when the VAT law took effect. On October 21, 2008, Smart filed its Motion for Reconsideration. Smart argued that the operative word in the "*in lieu of all taxes*" clause in Smart's franchise is the word "*all*". The word "*all*" before "*taxes*" in the clause "*in lieu of all taxes*" covers all kinds of taxes, national and local, except only those mentioned in the franchise. Smart also argued that the BIR already clarified in its Revenue Memorandum Circular No. 5-96 dated March 31, 1997 that the VAT merely replaced the franchise tax. On July 21, 2009, the Supreme Court's Third Division promulgated its Resolution denying Smart's Motion for Reconsideration and affirming that Smart is liable to pay local franchise tax to the City of Davao. On June 3, 2010, Smart received an initial local franchise tax assessment from the City of Davao covering the years from 1997 to 2010. Smart filed on June 21, 2010 its letter of protest against the local franchise tax assessment citing its local tax exemption by virtue of its BOI registration. On July 6, 2010, Smart received a letter from the City of Davao requesting for the submission of additional documents. Smart submitted several documents on August 3, 2010. In reply to Smart's protest, the City of Davao answered several issues, made an assessment and demanded for the settlement of the local franchise tax. Smart received the reply on October 26, 2010. On November 11, 2010, Smart protested the assessment. In an unsigned letter received by Smart on December 17, 2010, the City of Davao maintained that Smart is obligated to pay the local franchise tax assessed.

In an Indorsement dated February 10, 2011, the City of Davao Legal Office issued an Opinion recognizing that Smart's Tax exemption, being a BOI registered enterprise, shall commence from the date of registration with the Board (six years for pioneer business enterprise), pursuant to the provisions of Section 133(g) of the Local Government Code in relation to Article 11 of the Omnibus Investment Code of 1987. On March 15, 2011, the City of Davao issued its revised local franchise tax assessment which Smart paid on March 29, 2011.

With the finality of the Cities of Iloilo and Davao cases, several cities and provinces have began discussions with Smart on the settlement of alleged local franchise tax within their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the decisions on the Cities of Iloilo and Davao and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

Meanwhile, the Province of Cagayan also issued tax assessment for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (R.A. No. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. The case is now subject of judicial dispute resolution.

#### *Smart's Real Property Tax Assessment*

In *Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City*, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

On August 16, 2010, the Court of Appeals issued an Entry of Judgment confirming that the November 26, 2008 Resolution had become final and executory on December 22, 2008, and it was recorded in the book of Entries of Judgments.

#### *PCEV's Local Franchise Tax Assessment*

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled "*Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto*" (*Piltel vs. City of Makati*) (Civil Case No. 01-1760), the RTC of the City of Makati rendered its Decision dated December 10, 2002 declaring PCEV exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of PCEV, R.A. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the local government code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *Piltel vs. City of Makati* case.

#### *Digitel's Franchise Tax Assessment and Real Property Tax Assessment*

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. However, in the case of *Digitel vs. City Government of Batangas* (G.R. No. 156040, December 11, 2008), the Supreme Court ruled that Digitel's real properties used in its telecommunications business are subject to the real property tax. On June 16, 2009, the Supreme Court denied Digitel's Motion for Reconsideration.

With the *Digitel vs. City Government of Batangas* case, several cities and provinces have began discussions with Digitel on the settlement of real property tax within their respective jurisdiction.

*Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI*

Since 1990 (up to present), PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

*Matters Relating to a Third Party Aggregator*

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary, Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

In light of the nature of the allegations and out of an abundance of caution, PLDT's Board of Directors referred the Draft for review by the Audit Committee. The Audit Committee appointed an independent Investigation Committee to oversee an investigation into the allegations contained in the Draft. The Audit Committee retained independent counsel to lead in the investigation. To preserve the confidential nature of the inquiry, the investigation was limited to internal sources at PLDT, including current PLDT and Smart employees, internal records and discrete inquiries and public records searches.

The independent counsel, under the oversight of the Investigation Committee, has concluded on the basis of the evidence within the control of PLDT or otherwise reasonably available, that: (i) while the investigation cannot definitively exclude the possibility, the investigation has found no evidence to establish that PLDT's officers and employees were personally involved in the creation of the third-party entity referred to in the Draft and has found no evidence of any improper personal financial benefit or gain by these officers and employees, directly or indirectly from such third party entity; and (ii) while Smart had substantial business relationships with various third-party aggregators of long-distance telephone traffic during the relevant period, including the third-party entity referred to in the Draft (with which Smart ceased doing business in 2008), there is no evidence that the relationship with such third-party entity in fact resulted in a material adverse impact on PLDT's revenues during the relevant period and may have in fact benefited PLDT overall through an increase in overall call volume.

On May 7, 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee.

### *Matters Relating to Gamboa Case*

On June 29, 2011, the Supreme Court of the Philippines promulgated a Decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al.* (G.R. No. 176579) (the “Gamboa Case”), where the Court held that “the term ‘capital’ in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)”. The Decision of the Supreme Court reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60% to 40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution.

While PLDT is not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case “to apply this definition of the term ‘capital’ in determining the extent of allowable foreign ownership in Philippine Long Distance Telephone Company, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law.”

As at March 6, 2012, the Decision in the Gamboa Case is under reconsideration and has not become final and executory. To the best of PLDT’s knowledge, the Philippine SEC has not commenced any proceeding to determine if PLDT is in violation of Section 11, Article XII of the 1987 Constitution. A finding by the Philippine SEC that there is a violation of Section 11, Article XII of the 1987 Constitution by PLDT may subject the latter to sanctions under Philippine law, including possible revocation of its franchise.

Nonetheless, on July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT’s Articles of Incorporation consisting of the sub-classification of its authorized preferred capital into preferred shares with full voting rights, or Voting Preferred Shares, and serial preferred shares without voting rights, and other conforming amendments, or Amendments to the Articles. The Amendments to the Articles will require the approval by the stockholders of PLDT and the approval of the Philippine SEC. Upon approval of the Amendments to the Articles by the Philippine SEC, up to 150,000,000 Voting Preferred Shares could be initially issued by the Board to, among others, Philippine citizens and Philippine corporations at least 60% of the capital stock entitled to vote is owned or held by such citizens, as and when the Board determines such issuance to be necessary to avoid any disruptions on PLDT’s operations and transactions and to protect the interests of PLDT and its stakeholders. Upon issuance of such Voting Preferred Shares to Filipinos and Filipino-owned entities, the total foreign equity in the total resulting voting shares of PLDT will be reduced from the current 59% to about 35%. A Special Meeting of Stockholders of PLDT was scheduled on September 20, 2011, at which meeting the Amendments to the Articles were supposed to be submitted to PLDT’s stockholders for approval. However, the Special Meeting was cancelled due to lack of quorum. The Board of Directors called for another Special Meeting of Stockholders which will be held on March 22, 2012 for the purpose of presenting the Amendments to the Articles to the stockholders for their consideration and approval.

Other disclosures required by *PAS 37, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments.

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## **27. Financial Assets and Liabilities**

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies*.

The following table sets forth our financial assets and financial liabilities as at December 31, 2011 and 2010:

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for- sale financial assets	Financial liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
(in million pesos)									
<b>Assets as at December 31, 2011</b>									
<i>Noncurrent:</i>									
Property, plant and equipment	-	-	-	-	-	-	-	197,731	197,731
Investments in associates and joint ventures	-	-	-	-	-	-	-	17,865	17,865
Available-for-sale financial assets	-	-	-	-	7,181	-	7,181	-	7,181
Investment in debt securities	-	150	-	-	-	-	150	-	150
Investment properties	-	-	-	-	-	-	-	1,115	1,115
Goodwill and intangible assets	-	-	-	-	-	-	-	80,656	80,656
Deferred income tax assets – net	-	-	-	-	-	-	-	5,975	5,975
Prepayments – net of current portion	-	-	-	-	-	-	-	8,869	8,869
Advances and other noncurrent assets – net of current portion	1,147	-	-	-	-	-	1,147	193	1,340
<i>Current:</i>									
Cash and cash equivalents	46,057	-	-	-	-	-	46,057	-	46,057
Short-term investments	24	-	534	-	-	-	558	-	558
Trade and other receivables	16,245	-	-	-	-	-	16,245	-	16,245
Inventories and supplies	-	-	-	-	-	-	-	3,827	3,827
Derivative financial assets	-	-	366	-	-	-	366	-	366
Current portion of investment in debt securities	-	358	-	-	-	-	358	-	358
Current portion of prepayments	-	-	-	-	-	-	-	7,227	7,227
Current portion of advances and other noncurrent assets	18	-	-	-	-	-	18	108	126
<b>Total assets</b>	<b>63,491</b>	<b>508</b>	<b>900</b>	<b>-</b>	<b>7,181</b>	<b>-</b>	<b>72,080</b>	<b>323,566</b>	<b>395,646</b>
<b>Liabilities as at December 31, 2011</b>									
<i>Noncurrent:</i>									
Interest-bearing financial liabilities – net of current portion	-	-	-	-	-	91,280	91,280	-	91,280
Deferred income tax liabilities – net	-	-	-	-	-	-	-	2,902	2,902
Derivative financial liabilities	-	-	2,235	-	-	-	2,235	-	2,235
Pension and other employee benefits	-	-	-	-	-	-	-	609	609
Customers' deposits	-	-	-	-	-	2,272	2,272	-	2,272
Deferred credits and other noncurrent liabilities	-	-	-	-	-	20,343	20,343	2,299	22,642
<i>Current:</i>									
Accounts payable	-	-	-	-	-	27,982	27,982	1,572	29,554
Accrued expenses and other current liabilities	-	-	-	-	-	40,459	40,459	17,812	58,271
Derivative financial liabilities	-	-	922	2	-	-	924	-	924
Provision for claims and assessments	-	-	-	-	-	-	-	1,555	1,555
Current portion of interest-bearing financial liabilities	-	-	-	-	-	26,009	26,009	-	26,009
Dividends payable	-	-	-	-	-	2,583	2,583	-	2,583
Income tax payable	-	-	-	-	-	-	-	2,591	2,591
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>3,157</b>	<b>2</b>	<b>-</b>	<b>210,928</b>	<b>214,087</b>	<b>29,340</b>	<b>243,427</b>
<b>Net assets (liabilities)</b>	<b>63,491</b>	<b>508</b>	<b>(2,257)</b>	<b>(2)</b>	<b>7,181</b>	<b>(210,928)</b>	<b>(142,007)</b>	<b>294,226</b>	<b>152,219</b>
<b>Assets as at December 31, 2010</b>									
<i>Noncurrent:</i>									
Property, plant and equipment	-	-	-	-	-	-	-	163,184	163,184
Investments in associates and joint ventures	-	-	-	-	-	-	-	23,203	23,203
Available-for-sale financial assets	-	-	-	-	147	-	147	-	147
Investment in debt securities	-	484	-	-	-	-	484	-	484
Investment properties	-	-	-	-	-	-	-	1,560	1,560
Goodwill and intangible assets	-	-	-	-	-	-	-	11,485	11,485
Deferred income tax assets – net	-	-	-	-	-	-	-	6,110	6,110
Derivative financial assets	-	-	178	-	-	-	178	-	178
Prepayments – net of current portion	-	-	-	-	-	-	-	8,679	8,679
Advances and other noncurrent assets – net of current portion	984	-	-	-	-	-	984	203	1,187
<i>Current:</i>									
Cash and cash equivalents	36,678	-	-	-	-	-	36,678	-	36,678
Short-term investments	152	-	517	-	-	-	669	-	669
Trade and other receivables	16,428	-	-	-	-	-	16,428	-	16,428
Inventories and supplies	-	-	-	-	-	-	-	2,219	2,219
Derivative financial assets	-	-	5	-	-	-	5	-	5
Current portion of prepayments	-	-	-	-	-	-	-	5,418	5,418
Current portion of advances and other noncurrent assets	16	-	-	-	-	-	16	165	181
<b>Total assets</b>	<b>54,258</b>	<b>484</b>	<b>700</b>	<b>-</b>	<b>147</b>	<b>-</b>	<b>55,589</b>	<b>222,226</b>	<b>277,815</b>
<b>Liabilities as at December 31, 2010</b>									
<i>Noncurrent:</i>									
Interest-bearing financial liabilities – net of current portion	-	-	-	-	-	75,888	75,888	-	75,888
Deferred income tax liabilities – net	-	-	-	-	-	-	-	1,099	1,099
Derivative financial liabilities	-	-	3,604	-	-	-	3,604	-	3,604
Pension and other employee benefits	-	-	-	-	-	-	-	1,834	1,834
Customers' deposits	-	-	-	-	-	2,223	2,223	-	2,223
Deferred credits and other noncurrent liabilities	-	-	-	-	-	12,041	12,041	1,526	13,567

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for- sale financial assets	Financial liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
(in million pesos)									
<b>Current:</b>									
Accounts payable	-	-	-	-	-	23,673	23,673	2,131	25,804
Accrued expenses and other current liabilities	-	-	-	-	-	28,822	28,822	7,137	35,959
Provision for claims and assessments	-	-	-	-	-	-	-	1,555	1,555
Current portion of interest-bearing financial liabilities	-	-	-	-	-	13,801	13,801	-	13,801
Dividends payable	-	-	-	-	-	2,086	2,086	-	2,086
Income tax payable	-	-	-	-	-	-	-	3,010	3,010
Total liabilities	-	-	3,604	-	-	158,534	162,138	18,292	180,430
<b>Net assets (liabilities)</b>	<b>54,258</b>	<b>484</b>	<b>(2,904)</b>	<b>-</b>	<b>147</b>	<b>(158,534)</b>	<b>(106,549)</b>	<b>203,934</b>	<b>97,385</b>

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2011 and 2010:

	Carrying Value		Fair Value	
	2011	2010	2011	2010
(in million pesos)				
<b>Noncurrent Financial Assets</b>				
<i>Available-for-sale financial assets:</i>				
Listed equity securities	81	78	81	78
Unlisted equity securities	7,100	69	7,100	69
Investment in debt securities	150	484	158	502
<i>Derivative financial assets:</i>				
Long-term currency swap	-	178	-	178
<i>Advances and other noncurrent assets – net of current portion</i>	<b>1,147</b>	<b>984</b>	<b>1,061</b>	<b>915</b>
Total noncurrent financial assets	<b>8,478</b>	<b>1,793</b>	<b>8,400</b>	<b>1,742</b>
<b>Current Financial Assets</b>				
<i>Cash and cash equivalents:</i>				
Cash on hand and in banks	4,637	2,906	4,637	2,906
Temporary cash investments	41,420	33,772	41,420	33,772
Short-term investments	558	669	558	669
<i>Trade and other receivables – net:</i>				
Foreign administrations	4,762	4,321	4,762	4,321
Retail subscribers	4,038	3,872	4,038	3,872
Corporate subscribers	2,708	2,042	2,708	2,042
Domestic carriers	1,212	1,453	1,212	1,453
Dealers, agents and others	3,525	4,740	3,525	4,740
<i>Derivative financial assets:</i>				
Long-term currency swap	356	-	356	-
Forward foreign exchange contracts	10	-	10	-
Bifurcated embedded derivatives	-	5	-	5
Current portion of investment in debt securities	358	-	358	-
Current portion of advances and other noncurrent assets	18	16	18	16
Total current financial assets	<b>63,602</b>	<b>53,796</b>	<b>63,602</b>	<b>53,796</b>
<b>Total Financial Assets</b>	<b>72,080</b>	<b>55,589</b>	<b>72,002</b>	<b>55,538</b>
<b>Noncurrent Financial Liabilities</b>				
<i>Interest-bearing financial liabilities:</i>				
Long-term debt – net of current portion	91,273	75,879	95,052	82,244
Obligations under finance leases	7	9	7	8
<i>Derivative financial liabilities:</i>				
Long-term currency swap – net of current portion	2,090	3,604	2,090	3,604
Interest rate swap	145	-	145	-
Customers' deposits	2,272	2,223	1,772	1,701
Deferred credits and other noncurrent liabilities	20,343	12,041	19,420	11,457
Total noncurrent financial liabilities	<b>116,130</b>	<b>93,756</b>	<b>118,486</b>	<b>99,014</b>
<b>Current Financial Liabilities</b>				
<i>Accounts payable:</i>				
Suppliers and contractors	25,476	20,957	25,476	20,957
Carriers	1,642	1,866	1,642	1,866
Related parties	626	244	626	244
Others	238	606	238	606
<i>Accrued expenses and other current liabilities:</i>				
Utilities and related expenses	28,123	19,739	28,123	19,739
Mandatory tender offer option liability	4,940	-	4,940	-
Employee benefits	4,438	3,852	4,438	3,852
Interests and other related costs	1,122	1,028	1,122	1,028
Others	1,836	4,203	1,836	4,203

	Carrying Value		Fair Value	
	2011	2010	2011	2010
	(in million pesos)			
<i>Derivative financial liabilities:</i>				
Current portion of long-term currency swap	834	–	834	–
Current portion of interest rate swap	89	–	89	–
Current portion of forward foreign exchange contracts	1	–	1	–
<i>Interest-bearing financial liabilities:</i>				
Current portion of long-term debt	22,893	13,767	22,893	13,767
Notes payable	3,109	–	3,109	–
Obligations under finance leases	7	34	7	34
Dividends payable	2,583	2,086	2,583	2,086
Total current financial liabilities	97,957	68,382	97,957	68,382
<b>Total Financial Liabilities</b>	<b>214,087</b>	<b>162,138</b>	<b>216,443</b>	<b>167,396</b>

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at December 31, 2011 and 2010. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2011			2010		
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Total
	(in million pesos)					
<b>Noncurrent Financial Assets</b>						
Available-for-sale financial assets –						
Listed equity securities	81	–	81	78	–	78
Derivative financial assets	–	–	–	–	178	178
<b>Current Financial Assets</b>						
Short-term investments	–	534	534	–	517	517
Derivative financial assets	–	366	366	–	5	5
<b>Total</b>	<b>81</b>	<b>900</b>	<b>981</b>	<b>78</b>	<b>700</b>	<b>778</b>
<b>Noncurrent Financial Liabilities</b>						
Derivative financial liabilities	–	2,235	2,235	–	3,604	3,604
<b>Current Financial Liabilities</b>						
Derivative financial liabilities	–	924	924	–	–	–
<b>Total</b>	<b>–</b>	<b>3,159</b>	<b>3,159</b>	<b>–</b>	<b>3,604</b>	<b>3,604</b>

<sup>(1)</sup> Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

<sup>(2)</sup> Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.

As at December 31, 2011 and 2010, we have no financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3).

As at December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements.



The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Long-term financial assets and liabilities:*

Fair value is based on the following:

Type	Fair Value Assumptions
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.
Fixed Rate Loans: U.S. dollar notes Other loans in all other currencies	Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing rates for similar types of loans.
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.
Customers' deposits and deferred credits and other noncurrent liabilities	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.

*Derivative Financial Instruments:*

*Foreign currency options:* The fair values were computed using an option pricing model using market volatility rates of the U.S. dollar and Philippine peso exchange rate as at valuation date.

*Forward foreign exchange contracts, bifurcated foreign currency forwards and foreign currency swaps:* The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

*Available-for-sale financial assets:* Fair values of available-for-sale financial assets, which consist of proprietary listed shares, were determined using quoted prices. Investments in unlisted securities are carried at cost less any accumulated impairment losses.

*Investment in debt securities:* Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, current investment in debt securities, trade and other receivables, current portion of advances and other noncurrent assets, accounts payable, accrued expenses and other current liabilities, current portion of interest-bearing financial liabilities, and dividends payable approximate their carrying values as at the end of the reporting period.

*Derivative Financial Instruments*

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. As at December 31, 2011, SPi and SPi CRM designated forward foreign exchange contracts as cash flow hedges, while as at December 31, 2010, we have no outstanding financial instruments designated as hedges.

The table below sets out the information about our derivative financial instruments as at December 31, 2011 and 2010:

	Maturity	2011		2010	
		Notional	Mark-to-market Gains (Losses)	Notional	Mark-to-market Gains (Losses)
(in millions)					
<b>PLDT</b>					
Transactions not designated as hedges:					
Currency swaps	2017	US\$222	(Php2,090)	US\$222	(Php2,651)
	2012	100	(834)	100	(953)
	2012	60 <sup>(1)</sup>	356	60 <sup>(1)</sup>	178
			(2,568)		(3,426)
<b>Digitel Group</b>					
Interest rate swaps	2017	69	(233)	–	–
<b>SPi Group</b>					
Cash flow hedges:					
Forward foreign exchange contracts	2012	57	11	–	–
	2013	(4)	(3)	–	–
			8		–
<b>ePLDT Group</b>					
Transactions not designated as hedges:					
Bifurcated embedded derivatives	2012	–	–	1	5
			–		5
<b>Net liabilities</b>			<b>(Php2,793)</b>		<b>(Php3,421)</b>

<sup>(1)</sup> Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement maturing in 2012.

	2011	2010
(in million pesos)		
Presented as:		
Noncurrent assets	–	178
Current assets	366	5
Noncurrent liabilities	(2,235)	(3,604)
Current liabilities	(924)	–
<b>Net liabilities</b>	<b>(2,793)</b>	<b>(3,421)</b>

Analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010	2009
(in million pesos)			
Net mark-to-market losses at end of year	(2,793)	(3,421)	(2,745)
Net mark-to-market losses at beginning of year	(3,421)	(2,745)	(1,792)
Net change	628	(676)	(953)
Business combinations (Note 13)	250	–	–
Net gains on cash flow hedges charged to other comprehensive income	(14)	–	–
Settlements, accretion and conversion	(304)	(631)	546
Hedge cost	(363)	(434)	(599)
<b>Net gains (losses) on derivative financial instruments (Note 4)</b>	<b>197</b>	<b>(1,741)</b>	<b>(1,006)</b>

## **PLDT**

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

### *Currency Swaps*

PLDT has entered into long-term principal only-currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. These long-term currency swaps have an aggregate notional amount of US\$322 million with total mark-to-market losses of Php2,924 million and Php3,604 million as at December 31, 2011 and 2010, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php50.45 as at December 31, 2011 and 2010, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.04% and 2.93% per annum as at December 31, 2011 and 2010, respectively. The mark-to-market losses of the 2012 and 2017 swaps amounted to Php834 million and Php2,090 million as at December 31, 2011, respectively.

On various dates in 2009, the long-term principal only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php112 million and Php485 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$146 million and US\$245 million for the swaps maturing in 2012 and 2017, respectively, with mark-to-market losses of Php948 million and Php1,803, respectively, as at December 31, 2009.

On various dates in 2010, the long-term principal only-currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php372 million and Php168 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$100 million and US\$222 million for the swaps maturing in 2012 and 2017, respectively, with mark-to-market losses of Php953 million and Php2,651 million, respectively, as at December 31, 2010.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only-currency swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cash flows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php356 million and Php178 million as at December 31, 2011 and 2010, respectively.

## **SPi Group**

In February and March 2011, SPi and SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses maturing March 2011 up to October 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged.

On December 6, 2011, SPi CRM changed its functional currency from Philippine peso to U.S. dollar resulting to all outstanding hedges to become ineffective starting from that date and marked-to-market gains and losses thereafter are recognized in profit or loss. The mark-to-market gain recognized in the profit or loss arising from ineffective hedge as of December 31, 2011 by SPi CRM amounted to Php8 million. The outstanding forward exchange contracts that were designated as hedges amounted to US\$29 million and US\$24.4 million for SPi and SPi CRM, respectively, as at December 31, 2011.

In January 2012, SPi CRM pre-terminated all outstanding ineffective hedges.

## **ePLDT Group**

Level Up! embedded derivatives were bifurcated from various license contracts and other service agreements denominated in U.S. dollar. The aggregate notional amount of these bifurcated embedded currency forwards amounted to US\$1 million as at December 31, 2010. The total mark-to-market gains of these bifurcated embedded currency forwards amounted to Php5 million as at December 31, 2010. There were no outstanding embedded currency forward contracts as at December 31, 2011 due to deconsolidation of Level Up! on July 11, 2011.

## **Digitel Group**

### *Interest Rate Swap*

On October 7, 2008, DMPI entered in an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million USD Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the USD LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. As at December 31, 2011, the outstanding notional amount under this agreement is US\$37 million.

On October 7, 2008, DMPI entered in an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million USD Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the USD LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. As at December 31, 2011, the outstanding notional amount under this agreement is US\$32 million.

## **Financial Risk Management Objectives and Policies**

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

### ***Liquidity Risk***

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php913 million as at December 31, 2011 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php46,057 million and Php558 million, respectively, as at December 31, 2011. See *Note 15 – Cash and Cash Equivalents*.

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2011 and 2010:

	Total	Less than			More than
		1 year	1-3 years	3-5 years	
(in million pesos)					
<b>December 31, 2011</b>					
<i>Loans and receivables:</i>	73,626	72,492	886	201	47
Advances and other noncurrent assets	1,165	31	886	201	47
Cash equivalents	41,420	41,420	–	–	–
Short-term investments	24	24	–	–	–
Retail subscribers	11,302	11,302	–	–	–
Corporate subscribers	9,200	9,200	–	–	–
Foreign administrations	4,961	4,961	–	–	–
Domestic carriers	1,323	1,323	–	–	–
Dealers, agents and others	4,231	4,231	–	–	–
<i>HTM investments:</i>	508	358	150	–	–
Investment in debt securities	508	358	150	–	–
<i>Financial instruments at FVPL:</i>	534	534	–	–	–
Short-term investments	534	534	–	–	–
Available-for-sale financial assets	7,181	–	–	–	7,181
<b>Total</b>	<b>81,849</b>	<b>73,384</b>	<b>1,036</b>	<b>201</b>	<b>7,228</b>
<b>December 31, 2010</b>					
<i>Loans and receivables:</i>	63,182	62,202	897	45	38
Advances and other noncurrent assets	1,000	20	897	45	38
Cash equivalents	33,772	33,772	–	–	–
Short-term investments	152	152	–	–	–
Retail subscribers	8,917	8,917	–	–	–
Corporate subscribers	7,998	7,998	–	–	–
Foreign administrations	4,479	4,479	–	–	–
Domestic carriers	1,591	1,591	–	–	–
Dealers, agents and others	5,273	5,273	–	–	–
<i>HTM investments:</i>	484	–	484	–	–
Investment in debt securities	484	–	484	–	–
<i>Financial instruments at FVPL:</i>	517	517	–	–	–
Short-term investments	517	517	–	–	–
Available-for-sale financial assets	147	–	–	–	147
<b>Total</b>	<b>64,330</b>	<b>62,719</b>	<b>1,381</b>	<b>45</b>	<b>185</b>

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2011 and 2010:

	Payments Due by Period				
	Total	Less than	1-3 years	3-5 years	More than
(in million pesos)					
<b>December 31, 2011</b>					
<i>Debt<sup>(1)</sup>:</i>	142,271	16,378	62,213	39,476	24,204
Principal	119,410	15,348	48,141	33,971	21,950
Interest	22,861	1,030	14,072	5,505	2,254
<i>Lease obligations:</i>	17,826	6,352	5,324	2,998	3,152
Operating lease	17,810	6,349	5,317	2,992	3,152
Finance lease	16	3	7	6	–
Unconditional purchase obligations <sup>(2)</sup>	674	279	263	132	–
<i>Other obligations:</i>	91,828	66,223	14,976	7,072	3,557
Derivative financial liabilities <sup>(3)</sup> :	3,789	589	1,026	701	1,473
Long-term currency swap	3,552	500	907	673	1,472
Interest rate swap	237	89	119	28	1
Various trade and other obligations:	88,039	65,634	13,950	6,371	2,084
Suppliers and contractors	45,604	25,476	13,761	6,367	–
Utilities and related expenses	23,839	23,834	5	–	–
Employee benefits	4,452	4,452	–	–	–
Customers' deposits	2,272	–	184	4	2,084
Dividends	2,583	2,583	–	–	–
Carriers	1,642	1,642	–	–	–
Others	7,647	7,647	–	–	–
<b>Total contractual obligations</b>	<b>252,599</b>	<b>89,232</b>	<b>82,776</b>	<b>49,678</b>	<b>30,913</b>

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in million pesos)				
<b>December 31, 2010</b>					
<i>Debt</i> <sup>(1)</sup> :	113,394	6,569	51,308	33,978	21,539
Principal	92,590	6,206	38,263	29,335	18,786
Interest	20,804	363	13,045	4,643	2,753
<i>Lease obligations</i> :	8,003	4,383	1,710	948	962
Operating lease	7,959	4,353	1,697	947	962
Finance lease	44	30	13	1	–
Unconditional purchase obligations <sup>(2)</sup>	797	271	263	263	–
<i>Other obligations</i> :	68,782	50,247	13,963	683	3,889
Derivative financial liabilities <sup>(3)</sup> :	4,241	–	1,735	674	1,832
Long-term currency swap	4,241	–	1,735	674	1,832
Various trade and other obligations:	64,541	50,247	12,228	9	2,057
Suppliers and contractors	32,997	20,957	12,040	–	–
Utilities and related expenses	16,477	16,446	10	3	18
Employee benefits	3,853	3,853	–	–	–
Customers' deposits	2,223	–	178	6	2,039
Dividends	2,086	2,086	–	–	–
Carriers	1,866	1,866	–	–	–
Others	5,039	5,039	–	–	–
<b>Total contractual obligations</b>	<b>190,976</b>	<b>61,470</b>	<b>67,244</b>	<b>35,872</b>	<b>26,390</b>

<sup>(1)</sup> Consists of long-term debt, including current portion, and notes payable; gross of unamortized debt discount and debt issuance costs.

<sup>(2)</sup> Based on the Amended ATPA with AIL. See Note 24 – Related Party Transactions.

<sup>(3)</sup> Gross liabilities before any offsetting application.

### *Debt*

See Note 20 – Interest-bearing Financial Liabilities for a detailed discussion of our debt, including debt instruments of Digitel Group.

### *Operating Lease Obligations*

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2011 and 2010 are as follows:

	2011	2010
	(in million pesos)	
Within one year	6,423	4,469
After one year but not more than five years	8,235	2,528
More than five years	3,152	962
	<b>17,810</b>	7,959

### *Finance Lease Obligations*

See Note 20 – Interest-bearing Financial Liabilities for the detailed discussion of our long-term finance lease obligations.

### *Unconditional Purchase Obligations*

See Note 24 – Related Party Transactions for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php674 million and Php797 million as at December 31, 2011 and 2010, respectively.

### *Other Obligations – Various Trade and Other Obligations*

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php88,039 million and Php64,541 million as at December 31, 2011 and 2010, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

### **Commercial Commitments**

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php913 million and Php1,145 million as at December 31, 2011 and 2010, respectively. These commitments will expire within one year.

### **Foreign Currency Exchange Risk**

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2011 and 2010:

	2011		2010	
	U.S. Dollar	Php <sup>(1)</sup>	U.S. Dollar	Php <sup>(2)</sup>
	(in millions)			
<b>Noncurrent Financial Assets</b>				
Advances and other noncurrent assets	2	83	3	122
Derivative financial assets	–	–	4	178
<b>Total noncurrent financial assets</b>	<b>2</b>	<b>83</b>	<b>7</b>	<b>300</b>
<b>Current Financial Assets</b>				
Cash and cash equivalents	165	7,248	138	6,050
Short-term investments	12	540	15	652
Trade and other receivables – net	215	9,445	214	9,361
Derivative financial assets	8	366	–	5
<b>Total current financial assets</b>	<b>400</b>	<b>17,599</b>	<b>367</b>	<b>16,068</b>
<b>Total Financial Assets</b>	<b>402</b>	<b>17,682</b>	<b>374</b>	<b>16,368</b>

	2011		2010	
	U.S. Dollar	Php <sup>(1)</sup>	U.S. Dollar	Php <sup>(2)</sup>
	(in millions)			
<b>Noncurrent Financial Liabilities</b>				
Interest-bearing financial liabilities – net of current portion	906	39,806	782	34,244
Derivative financial liabilities	51	2,235	82	3,604
Total noncurrent financial liabilities	957	42,041	864	37,848
<b>Current Financial Liabilities</b>				
Accounts payable	198	8,688	169	7,415
Accrued expenses and other current liabilities	129	5,677	143	6,267
Derivative financial liabilities	21	924	–	–
Current portion of interest-bearing financial liabilities	349	15,328	103	4,537
Total current financial liabilities	697	30,617	415	18,219
<b>Total Financial Liabilities</b>	<b>1,654</b>	<b>72,658</b>	<b>1,279</b>	<b>56,067</b>

<sup>(1)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2011.

<sup>(2)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

As at March 5, 2012, the Philippine peso-U.S. dollar exchange rate was Php42.82 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine peso terms by Php1,377 million as at December 31, 2011.

Approximately 47% and 43% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2011 and 2010, respectively. Consolidated foreign currency-denominated debt decreased to Php53,329 million as at December 31, 2011 from Php38,414 million as at December 31, 2010. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts were US\$262 million as at December 31, 2011 and 2010. Consequently, the unhedged portion of our consolidated debt amounts was approximately 37% (or 30%, net of our consolidated U.S. dollar cash balances) and 30% (or 23%, net of our consolidated U.S. dollar cash balances) as at December 31, 2011 and 2010, respectively.

Approximately, 30% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2011 as compared with approximately 30% and 32% for the years ended December 31, 2010 and 2009, respectively. Our consolidated expenses were denominated in U.S. dollars and/or were linked to U.S. dollars was approximately 17% for the year ended December 31, 2011 as compared with approximately 19% and 20% for the years ended December 31, 2010 and 2009, respectively. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues and expenses, and consequently, our cash flow from operations in terms of Philippine peso.

The Philippine peso had depreciated by 0.25% against the U.S. dollar to Php43.92 to US\$1.00 as at December 31, 2011 from Php43.81 to US\$1.00 as at December 31, 2010. As at December 31, 2010, the Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US\$1.00 from Php46.43 to US\$1.00 as at December 31, 2009. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php744 million for the year ended December 31, 2011, while we recognized net consolidated foreign exchange gains of Php1,807 million and Php909 million for the years ended December 31, 2010 and 2009, respectively. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until our next reporting date of December 31, 2012. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 5.05% as compared to the exchange rate of Php43.92 to US\$1.00 as at December 31, 2011. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 5.05% as at December 31, 2011, with all other variables held constant, profit after tax for the year end 2011 would have been approximately Php1,630 million higher/lower and our consolidated stockholders' equity as at year end 2011 would have been approximately Php1,609 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 5.27% as at December 31, 2010, with all other variables held constant, profit after tax for the year 2010 would have



been approximately Php1,099 million higher/lower and our consolidated stockholders' equity as at year end 2010 would have been approximately Php1,089 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

### Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2011 and 2010. Financial instruments that are not subject to interest rate risk were not included in the table.

### As at December 31, 2011

	In U.S. Dollars						In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total				In U.S. Dollar	In Php
(in millions)											
<b>Assets:</b>											
<i>Investment in Debt Securities</i>											
Philippine Peso	8	4	–	–	–	12	508	–	508	12	516
Interest rate	6.8750%	7.0000%	–	–	–	–	–	–	–	–	–
<i>Cash in Bank</i>											
U.S. Dollar	14	–	–	–	–	14	626	–	626	14	626
Interest rate	0.0100% to 0.7663%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	66	–	–	–	–	66	2,886	–	2,886	66	2,886
Interest rate	0.0100% to 3.1500%	–	–	–	–	–	–	–	–	–	–
Other Currencies	5	–	–	–	–	5	218	–	218	5	218
Interest rate	0.0100% to 2.0000%	–	–	–	–	–	–	–	–	–	–
<i>Temporary Cash Investments</i>											
U.S. Dollar	133	–	–	–	–	133	5,824	–	5,824	133	5,824
Interest rate	0.2500% to 1.7000%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	810	–	–	–	–	810	35,596	–	35,596	810	35,596
Interest rate	1.0000% to 4.8750%	–	–	–	–	–	–	–	–	–	–
<i>Short-term Investments</i>											
U.S. Dollar	12	–	–	–	–	12	540	–	540	12	540
Interest rate	3.1020%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	–	–	–	–	–	–	18	–	18	–	18
Interest rate	3.5000%	–	–	–	–	–	–	–	–	–	–
	<b>1,048</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,052</b>	<b>46,216</b>	<b>–</b>	<b>46,216</b>	<b>1,052</b>	<b>46,224</b>
<b>Liabilities:</b>											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	146	–	–	–	234	380	16,691	124	16,567	427	18,740
Interest rate	11.3750%	–	–	–	8.3500%	–	–	–	–	–	–
U.S. Dollar Fixed Loans	–	53	302	28	21	404	17,738	1,900	15,838	359	15,770
Interest rate	–	2.9900% to 3.9550%	2.2500% to 3.9550%	2.9900% to 3.9550%	3.9550%	–	–	–	–	–	–
Philippine Peso	121	137	122	590	187	1,157	50,818	38	50,780	1,194	52,454
Interest rate	5.6250% to 6.5708%	5.4692% to 8.4346%	5.4692% to 9.1038%	5.4962% to 9.1038%	5.4963% to 9.1038%	–	–	–	–	–	–
<i>Variable Rate</i>											
U.S. Dollar	11	242	73	94	58	478	20,996	71	20,925	476	20,925
Interest rate	US\$ LIBOR + 0.7500%	US\$ LIBOR + 0.3000% to 1.8500%	US\$ LIBOR + 0.3000% to 1.8500%	US\$ LIBOR + 0.3000% to 1.8000%	US\$ LIBOR + 0.3000% to 1.8000%	–	–	–	–	–	–
Philippine Peso	1	147	20	61	–	229	10,059	3	10,056	229	10,056

	In U.S. Dollars						In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total				In U.S. Dollar	In Php
Interest rate	PDST-F + 1.3750%	PDST-F + 0.3000%	PDST-F + 0.3000%	BSP overnight rate + 30 bps to 50 bps	-	-	-	-	-	-	
(in millions)											
<i>Short-term Debt</i>											
<i>Notes Payable</i>											
U.S. Dollar	35	-	-	-	-	35	1,537	-	1,537	35	
Interest rate	Bank's prime rate	-	-	-	-	-	-	-	-	-	
Philippine Peso	36	-	-	-	-	36	1,572	-	1,572	36	
Interest rate	4.0000%	-	-	-	-	-	-	-	-	-	
	<b>350</b>	<b>579</b>	<b>517</b>	<b>773</b>	<b>500</b>	<b>2,719</b>	<b>119,411</b>	<b>2,136</b>	<b>117,275</b>	<b>2,756</b>	
										<b>121,054</b>	

### As at December 31, 2010

	In U.S. Dollars						In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total				In U.S. Dollar	In Php
(in millions)											
<b>Assets:</b>											
<i>Investment in Debt Securities</i>											
Philippine Peso	-	-	8	3	-	11	484	-	484	11	
Interest rate	-	-	6.8750%	7.0000%	-	-	-	-	-	-	
<i>Cash in Bank</i>											
U.S. Dollar	11	-	-	-	-	11	474	-	474	11	
Interest rate	0.0025% to 0.7840%	-	-	-	-	-	-	-	-	-	
Philippine Peso	31	-	-	-	-	31	1,362	-	1,362	31	
Interest rate	0.0625% to 2.9000%	-	-	-	-	-	-	-	-	-	
Other Currencies	3	-	-	-	-	3	118	-	118	3	
Interest rate	0.0100% to 2.4000%	-	-	-	-	-	-	-	-	-	
<i>Temporary Cash Investments</i>											
U.S. Dollar	110	-	-	-	-	110	4,813	-	4,813	110	
Interest rate	0.1000% to 1.7000%	-	-	-	-	-	-	-	-	-	
Philippine Peso	661	-	-	-	-	661	28,959	-	28,959	661	
Interest rate	1.0000% to 4.8100%	-	-	-	-	-	-	-	-	-	
<i>Short-term Investments</i>											
U.S. Dollar	15	-	-	-	-	15	652	-	652	15	
Interest rate	1.9000% to 10.672%	-	-	-	-	-	-	-	-	-	
Philippine Peso	-	-	-	-	-	-	17	-	17	-	
Interest rate	3.2500%	-	-	-	-	-	-	-	-	-	
	<b>831</b>	<b>-</b>	<b>8</b>	<b>3</b>	<b>-</b>	<b>842</b>	<b>36,879</b>	<b>-</b>	<b>36,879</b>	<b>842</b>	
										<b>36,897</b>	
<b>Liabilities:</b>											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	146	-	-	234	380	16,650	200	16,450	440	
Interest rate	-	11.3750%	-	-	8.3500%	-	-	-	-	-	
U.S. Dollar Fixed Loans	9	29	15	295	-	348	15,264	2,586	12,678	276	
Interest rate	4.7000%	2.9900% to 3.7900%	2.9900% to 3.7900%	2.2500% to 2.9900%	-	-	-	-	-	-	
Philippine Peso	68	146	121	339	195	869	38,066	74	37,992	961	
Interest rate	6.0323% to 8.7792%	5.6250% to 8.4346%	6.5000% to 8.4346%	6.5000% to 9.1038%	6.5000% to 9.1038%	-	-	-	-	-	
<i>Variable Rate</i>											
U.S. Dollar	6	148	45	15	-	214	9,357	71	9,286	212	
Interest rate	US\$ LIBOR + 0.8150%	Swap rate + 2.7900%;	Swap rate + 2.7900%;	Swap rate + 2.7900%;	-	-	-	-	-	-	
		US\$ LIBOR + 0.4200% to 1.8500%	US\$ LIBOR + 0.4200% to 1.8500%	US\$ LIBOR + 1.3500% to 1.8500%	-	-	-	-	-	-	
Philippine Peso	58	150	74	20	-	302	13,253	13	13,240	302	
Interest rate	PDST-F + 0.3000% to 1.2500%	PDST-F + 0.3000% to 1.3750%;	PDST-F + 0.3000%	PDST-F + 0.3000%	-	-	-	-	-	-	
		AUB's prime rate									
	<b>141</b>	<b>619</b>	<b>255</b>	<b>669</b>	<b>429</b>	<b>2,113</b>	<b>92,590</b>	<b>2,944</b>	<b>89,646</b>	<b>2,191</b>	
										<b>96,011</b>	

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of December 31, 2012. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points and 100 basis points higher/lower, respectively, as compared to levels as at December 31, 2011. If U.S. dollar interest rates had been 5 basis points higher/lower as compared to market levels as at December 31, 2011, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2011 would have been approximately Php25 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 100 basis points higher/lower as compared to market levels as at December 31, 2011, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2011 would have been approximately Php317 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If U.S. dollar interest rates had been 15 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php56 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 220 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php785 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

### ***Credit Risk***

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at December 31, 2011 and 2010:

	<b>Gross Maximum Exposure<sup>(1)</sup></b>		<b>Net Maximum Exposure<sup>(2)</sup></b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(in million pesos)			
<i>Loans and receivables:</i>				
Advances and other noncurrent assets	<b>1,165</b>	1,000	<b>1,152</b>	999
Cash and cash equivalents	<b>46,057</b>	36,678	<b>45,483</b>	36,458
Short-term investments	<b>24</b>	152	<b>24</b>	152
Foreign administrations	<b>4,762</b>	4,321	<b>4,693</b>	4,277
Retail subscribers	<b>4,038</b>	3,872	<b>3,975</b>	3,799
Corporate subscribers	<b>2,708</b>	2,042	<b>2,495</b>	1,918
Domestic carriers	<b>1,212</b>	1,453	<b>1,212</b>	1,453
Dealers, agents and others	<b>3,525</b>	4,740	<b>3,497</b>	4,740
<i>HTM investments:</i>				
Investment in debt securities	<b>508</b>	484	<b>508</b>	484
Available-for-sale financial assets	<b>7,181</b>	147	<b>7,181</b>	147

	Gross Maximum Exposure <sup>(1)</sup>		Net Maximum Exposure <sup>(2)</sup>	
	2011	2010	2011	2010
	(in million pesos)			
<i>Financial instruments at FVPL:</i>				
Short-term investments	534	517	534	517
Long-term currency swap	356	178	356	178
Bifurcated embedded derivatives	–	5	–	5
<i>Derivatives used for hedging:</i>				
Forward foreign exchange contracts	10	–	10	–
<b>Total</b>	<b>72,080</b>	<b>55,589</b>	<b>71,120</b>	<b>55,127</b>

<sup>(1)</sup> Gross financial assets before taking into account any collateral held or other credit enhancements or offsetting arrangements.

<sup>(2)</sup> Gross financial assets after taking into account any collateral held or other credit enhancements or offsetting arrangements or deposit insurance.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2011 and 2010:

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A <sup>(1)</sup>	Class B <sup>(2)</sup>		
	(in million pesos)				
<b>December 31, 2011</b>					
<i>Loans and receivables:</i>					
Advances and other noncurrent assets	1,165	1,128	37	–	–
Cash and cash equivalents	46,057	44,885	1,172	–	–
Short-term investments	24	24	–	–	–
Retail subscribers	11,302	1,449	1,050	1,539	7,264
Corporate subscribers	9,200	974	375	1,359	6,492
Foreign administrations	4,961	1,309	1,242	2,211	199
Domestic carriers	1,323	215	24	973	111
Dealers, agents and others	4,231	1,705	1,217	603	706
<i>HTM investments:</i>					
Investment in debt securities	508	508	–	–	–
Available-for-sale financial assets	7,181	150	7,031	–	–
<i>Financial instruments at FVPL<sup>(3)</sup>:</i>					
Short-term investments	534	534	–	–	–
Long-term currency swap	356	356	–	–	–
<i>Derivatives used for hedging:</i>					
Forward foreign exchange contracts	10	10	–	–	–
<b>Total</b>	<b>86,852</b>	<b>53,247</b>	<b>12,148</b>	<b>6,685</b>	<b>14,772</b>
<b>December 31, 2010</b>					
<i>Loans and receivables:</i>					
Advances and other noncurrent assets	1,000	951	49	–	–
Cash and cash equivalents	36,678	35,368	1,310	–	–
Short-term investments	152	152	–	–	–
Retail subscribers	8,917	946	926	2,000	5,045
Corporate subscribers	7,998	393	612	1,037	5,956
Foreign administrations	4,479	1,756	699	1,866	158
Domestic carriers	1,591	191	23	1,239	138
Dealers, agents and others	5,273	2,599	2,013	128	533
<i>HTM investments:</i>					
Investment in debt securities	484	484	–	–	–
Available-for-sale financial assets	147	108	39	–	–
<i>Financial instruments at FVPL<sup>(3)</sup>:</i>					
Short-term investments	517	517	–	–	–
Long-term currency swap	178	178	–	–	–
Bifurcated embedded derivatives	5	5	–	–	–
<b>Total</b>	<b>67,419</b>	<b>43,648</b>	<b>5,671</b>	<b>6,270</b>	<b>11,830</b>

<sup>(1)</sup> This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.

<sup>(2)</sup> This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.

<sup>(3)</sup> Gross receivables from counterparties, before any offsetting arrangements.

The aging analysis of past due but not impaired class of financial assets as at December 31, 2011 and 2010 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
<b>December 31, 2011</b>						
<i>Loans and receivables:</i>						
Advances and other noncurrent assets	1,165	1,165	—	—	—	—
Cash and cash equivalents	46,057	46,057	—	—	—	—
Short-term investments	24	24	—	—	—	—
Retail subscribers	11,302	2,499	1,202	226	111	7,264
Corporate subscribers	9,200	1,349	706	263	390	6,492
Foreign administrations	4,961	2,551	897	282	1,032	199
Domestic carriers	1,323	239	100	98	775	111
Dealers, agents and others	4,231	2,922	182	199	222	706
<i>HTM investments:</i>						
Investment in debt securities	508	508	—	—	—	—
Available-for-sale financial assets	7,181	7,181	—	—	—	—
<i>Financial instruments at FVPL:</i>						
Short-term investments	534	534	—	—	—	—
Long-term currency swap	356	356	—	—	—	—
<i>Derivatives used for hedging:</i>						
Forward foreign exchange contracts	10	10	—	—	—	—
<b>Total</b>	<b>86,852</b>	<b>65,395</b>	<b>3,087</b>	<b>1,068</b>	<b>2,530</b>	<b>14,772</b>
<b>December 31, 2010</b>						
<i>Loans and receivables:</i>						
Advances and other noncurrent assets	1,000	1,000	—	—	—	—
Cash and cash equivalents	36,678	36,678	—	—	—	—
Short-term investments	152	152	—	—	—	—
Retail subscribers	8,917	1,872	1,387	150	463	5,045
Corporate subscribers	7,998	1,005	642	159	236	5,956
Foreign administrations	4,479	2,455	616	393	857	158
Domestic carriers	1,591	214	165	182	892	138
Dealers, agents and others	5,273	4,612	21	20	87	533
<i>HTM investments:</i>						
Investment in debt securities	484	484	—	—	—	—
Available-for-sale financial assets	147	147	—	—	—	—
<i>Financial instruments at FVPL:</i>						
Short-term investments	517	517	—	—	—	—
Long-term currency swap	178	178	—	—	—	—
Bifurcated embedded derivatives	5	5	—	—	—	—
<b>Total</b>	<b>67,419</b>	<b>49,319</b>	<b>2,831</b>	<b>904</b>	<b>2,535</b>	<b>11,830</b>

### *Impairment Assessments*

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

#### *Individually assessed allowance*

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

### ***Capital Management Risk***

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core earnings per share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. According to the share buyback program, as at December 31, 2011, we acquired a total of approximately 2.72 million shares of PLDT's common stock for a total consideration of Php6,505 million, representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share. See *Note 8 – Earnings Per Common Share* and *Note 19 – Equity*.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2011 and 2010:

	<b>2011</b>	2010
	(in million pesos)	
Long-term debt, including current portion (Note 20)	<b>114,166</b>	89,646
Notes payable (Note 20)	<b>3,109</b>	–
Total consolidated debt	<b>117,275</b>	89,646
Cash and cash equivalents (Note 15)	<b>(46,057)</b>	(36,678)
Short-term investments	<b>(558)</b>	(669)
Net consolidated debt	<b>70,660</b>	52,299
Equity attributable to equity holders of PLDT	<b>151,833</b>	97,069
Net consolidated debt to equity ratio	<b>47%</b>	54%

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**28. Cash Flow Information**

The table below shows non-cash activities for the years ended December 31, 2011, 2010 and 2009:

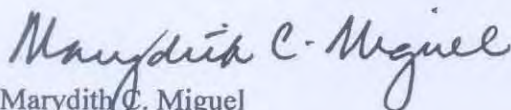
	<b>2011</b>	2010	2009
		(in million pesos)	
Issuance of shares for the acquisition of Digitel	<b>64,492</b>	–	–
Put option liability for the mandatory tender offer (Notes 13 and 23)	<b>4,940</b>	–	–
Recognition of asset retirement obligations (Note 21)	<b>29</b>	49	17
Transfer of Meralco shares to Beacon (Note 10)	–	15,083	–
Conversion of preferred stock subject to mandatory redemption	–	–	9

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 6, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Marydith C. Miguel

Partner

CPA Certificate No. 65556

SEC Accreditation No. 0087-AR-2 (Group A),

March 4, 2010, valid until March 3, 2013

Tax Identification No. 102-092-270

BIR Accreditation No. 08-001998-55-2009,

June 1, 2009, valid until May 31, 2012

PTR No. 3174812, January 2, 2012, Makati City

March 6, 2012





**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule A. Financial Assets**  
**December 31, 2011**

<u>Name of Issuing Entity and Association of Each Issue</u>	<u>Number of Shares</u>	<u>Amount Shown in the Balance Sheet</u>	<u>Valued Based on Market Quotation at Balance Sheet Date</u>	<u>Income Received and Accrued</u>
		(In Millions)		
Available-for-sale financial assets				
Beacon preferred shares	1,199	Php6,991	N/A	Php-
Others	various	190	N/A	-
	-	<b>Php7,181</b>	-	<b>Php-</b>

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

**Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements**

**December 31, 2011**

	December 2010	Additions (In Millions)	Collections	December 2011
Digital Telecommunications, Inc.	Php-	Php34,120	Php-	Php34,120
Smart Communications, Inc.	15,354	32,425	(30,718)	17,061
Philcom Corporation	1,167	145	(98)	1,214
Philippine Long Distance Telephone Company	1,350	156	(698)	808
PLDT Global Corporation	171	182	(24)	329
Smart Broadband, Inc.	223	82	(15)	290
ePLDT, Inc.	-	455	(365)	90
iPlus Intelligent Network, Inc.	2	70	(5)	67
SPi CRM, Inc.	12,166	287	(12,400)	53
Pilipinas Global Network	-	44	-	44
Maranao Telephone, Inc.	42	129	(134)	37
SPi Technologies, Inc.	25	44	(37)	32
Subic Telecommunications Company, Inc.	31	152	(160)	23
Bonifacio Communications Corporation	(3)	36	(11)	22
PLDT Clark Telecom	-	73	(62)	11
Infocom Technologies, Inc.	5	49	(45)	9
I-Contacts Corporation	(3)	30	(21)	6
Wolfpac Mobile, Inc.	1	7	(3)	5
ACeS Philippines Cellular Corporation	144	15	(155)	4
PLDT(SG) Pte Ltd	3	-	-	3
Smart Hub Incorporated	7	-	(4)	3
Bayan Trade	2	5	(6)	1
Digitel Mobile Philippines, Inc.	-	2	(1)	1
Mabuhay Satellite Corporation	2	3	(4)	1
Netgames, Inc.	-	1	-	1
SPi Vietnam Company Ltd.	-	1	-	1
Airborne Access, Inc.	2	-	(2)	-
	<b>30,691</b>	<b>68,513</b>	<b>(44,968)</b>	<b>54,236</b>

*All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.*

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule D. Goodwill and Intangible Assets**  
**December 31, 2011**

<b>Description</b>	<b>Beginning Balance</b>	<b>Additions At Cost</b>	<b>Charged to Cost and Expenses*</b>	<b>Charged to Other Accounts</b>	<b>Other Changes Additions (Deductions)</b>	<b>Ending Balance**</b>
<b>(In Millions)</b>						
Intangible Assets						
Spectrum	Php696	Php-	(Php80)	Php-	Php-	Php616
Licenses	128	2	(17)	(5)	(29)	79
Technology application	16	-	(8)	3	-	11
Customer list	420	-	(146)	1	-	275
Trademark	118	-	(13)	-	-	105
	1,378	2	(264)	(1)	(29)	1,086
Goodwill	10,107	-	-	282	69,181	79,570
	<b>Php11,485</b>	<b>Php2</b>	<b>(Php264)</b>	<b>Php281</b>	<b>Php69,152</b>	<b>Php80,656</b>

\* Represents amortization of intangible assets and impairment

\*\* See Note 14 - Goodwill and Intangible Assets to the accompanying consolidated financial statements in Item 7.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule E. Interest-bearing Financial Liabilities**  
**December 31, 2011**

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current	Amount shown as Long- term
		(In Millions)	
<i>U.S. Dollar Debts:</i>			
Export Credit Agencies-Supported Loans:			
China Export and Credit Insurance Corporation, Sinosure			
Societe Generale and Calyon – US\$23.561M (Sinasure Loan)	Php296	Php148	Php148
Societe Generale and Calyon – US\$12.707M (Sinasure Loan)	229	76	153
ING Bank – US\$11.993M (Sinasure Loan)	153	61	92
ING Bank US\$12.106M (Sinasure Loan)	266	76	190
ING Bank US\$21.020M (Sinasure Loan)	457	131	326
ING Bank US\$23.778M (Sinasure Loan)	746	149	597
ING Bank US\$5.499M	172	34	138
ING Bank US\$4.928M	155	31	124
HSBC US\$15.859M (Sinasure Loan)	581	97	484
HSBC and Credit Suisse US\$24.709M (Sinasure Loan)	930	155	775
China CITIC Bank US\$49.908M (Sinasure Loan)	1,786	298	1,488
HSBC and China Development Bank US\$117.306M (Sinasure Loan)	5,108	681	4,427
	<b>10,879</b>	<b>1,937</b>	<b>8,942</b>
Exportkreditnamnden, or EKN			
Nordea Bank, US\$18.659M	329	94	235
ING Bank US\$43.195M	700	280	420
ING Bank Societe Generale and Calyon US\$51.155M	1,416	257	1,159
ING Bank Societe Generale and Calyon US\$59.177M	1,631	296	1,335
Nordea Bank US\$22.5M	414	205	209
Unamortized debt issuance cost	(7)	–	(7)
	<b>4,483</b>	<b>1,132</b>	<b>3,351</b>
EKN and AB Svensk Exportkredit, SEK			
Nordea Bank and ING Bank N.V. – US\$96.6M	3,475	513	2,962
	<b>3,475</b>	<b>513</b>	<b>2,962</b>
Finnvera, Plc, or Finnvera			
Finnish Export Credit, Plc, or FEC (Calyon) – US\$50M	1,290	423	867
Finnish Export Credit, Citicorp – US\$50M	1,485	414	1,071
	<b>2,775</b>	<b>837</b>	<b>1,938</b>

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current (In Millions)	Amount shown as Long- term
<b>Others</b>			
ING Bank N.V., Calyon and Societe Generale US\$18.967M (COFACE Loan)	171	114	57
ING Bank US\$ 6.037M (Atradius)	85	34	51
	<b>256</b>	<b>148</b>	<b>108</b>
	<b>21,868</b>		
<b>Fixed Rate Notes</b>			
Deutsche Bank – US\$300M Notes Due 2017 (8.35%)	Php10,205	Php–	Php10,205
Deutsche Bank – US\$300M Notes Due 2017 (8.35%) – Unamortized debt issuance cost	(16)	(16)	–
The Bank of New York – US\$250M Notes Due 2012 (11.375%)	6,378	6,378	–
	<b>16,567</b>	<b>6,362</b>	<b>10,205</b>
<b>Term Loans:</b>			
Debt Exchange Facility	10,472	–	10,472
	<b>10,472</b>	–	<b>10,472</b>
<b>GSM Network Expansion Facility</b>			
Metropolitan Bank and Trust Company US\$50M	488	488	–
Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord US\$50M	657	438	219
ABN AMRO Bank N.V. US\$50M	1,090	434	656
Unamortized debt issuance cost	(34)	–	(34)
	<b>2,201</b>	<b>1,360</b>	<b>841</b>
<b>Others</b>			
Term Loan Facility with Norddeutsche Landesbank Girozentrale SG Branch US\$ 100M (PLDT)	1,318	879	439
Bank of the Philippine Islands US\$50M (PLDT)	904	517	387
	<b>2,222</b>	<b>1,396</b>	<b>826</b>
<b>Philippine Peso Debts:</b>			
<b>Corporate Notes</b>			
Smart Fixed Corporate Notes (2007) P5B	4,963	3,811	1,152
Smart Fixed Corporate Notes (2008) P5B	4,827	39	4,788
PLDT Notes Facility Agreement (2009) P5B	4,952	24	4,928
PLDT Notes Facility Agreement P7B	6,781	110	6,671
Metrobank P2.5B	2,500	–	2,500
Smart Notes Facility Agreement P2.5B	2,490	–	2,490
Smart Notes Facility Agreement P2.5B – Unamortized debt issuance cost	(3)	(3)	–
BDO Private Bank, Inc. - P2B	2,000	–	2,000
PLDT Notes Facility Agreement (2011) P5B	5,000	50	4,950
PLDT Notes Facility Agreement (2011) P5B	5,000	50	4,950
	<b>38,510</b>	<b>4,081</b>	<b>34,429</b>

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current (In Millions)	Amount shown as Long-term
Term Loans:			
Unsecured Term Loans			
Metrobank P2.5B	1,248	623	625
Land Bank of the Philippines P2.4B	1,022	511	511
Union Bank of the Philippines P3B	1,333	667	666
Philippine National Bank, or PNB P2B	941	470	471
Banco de Oro Unibank, Inc., or BDO P2.5B	2,500	–	2,500
Banco de Oro Unibank, Inc., or BDO P1.5B	1,498	1,498	–
Rizal Commercial Banking Corporation P2.5B	2,500	–	2,500
Allied Banking Corporation P1.5B	971	353	618
Insular Life Assurance Company, Ltd. P500M	500	–	500
Metrobank P1B	688	250	438
BPI P2B	1,412	471	941
BPI P1B	706	235	471
Philippine National Bank, or PNB P2B (Smart)	2,000	–	2,000
Metrobank P1.5B	1,500	–	1,500
Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife P300M	300	–	300
Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife P500M	500	–	500
Metrobank P1B	710	–	710
BDO P2B	1,948	–	1,948
	<b>22,277</b>	<b>5,078</b>	<b>17,199</b>
Secured Term Loans			
BPI P150M	49	49	–
	<b>49</b>	<b>49</b>	<b>–</b>
<b>Total Long-Term Debt</b>	<b>114,166</b>	<b>22,893</b>	<b>91,273</b>
Obligations under Finance Lease	14	7	7
Notes Payable	3,109	3,109	–
	<b>Php117,289</b>	<b>Php26,009</b>	<b>Php91,280</b>

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule H. Capital Stock**  
**December 31, 2011**

Title of Issue	Number of Shares Authorized	Number of Shares issued and Outstanding	Number of Shares Reserved For Options, Warrants, Conversion and Other Rights	Number of Shares Held By Related Parties	Directors and Key Officers <sup>(1)</sup>	Others
(In Millions)						
Preferred Stock (Php10 par value)	823		-	-	-	-
Cumulative Convertible Series A to II		406		-		406
Cumulative Nonconvertible Series IV		36		36		-
Common Stock (Php5 par value)	234	214	-	99 <sup>(2)</sup>	-	115

<sup>(1)</sup> Consists of 337,532 common shares directly and indirectly owned by directors and key officers as at February 29, 2012.

<sup>(2)</sup> Represents 26% beneficial ownership of First Pacific Group and its Philippine affiliates, and 21% beneficial ownership of NTT Group in PLDT's outstanding shares.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule I. Schedule of all the Effective Standards and Interpretations**  
**December 31, 2011**

<b>PFRSs and PIC Q&amp;As</b>	<b>Adopted/Not adopted/Not applicable</b>
PFRS 1, <i>First-time Adoption of Philippine Financial Reporting Standards</i>	Adopted
PFRS 2, <i>Share-based Payment</i>	Adopted
PFRS 3, <i>Business Combinations</i>	Adopted
PFRS 4, <i>Insurance Contracts</i>	Not applicable
PFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Adopted
PFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Not applicable
PFRS 7, <i>Financial Instruments: Disclosures</i>	Adopted
PFRS 8, <i>Operating Segments</i>	Adopted
PAS 1, <i>Presentation of Financial Statements</i>	Adopted
PAS 2, <i>Inventories</i>	Adopted
PAS 7, <i>Statement of Cash Flows</i>	Adopted
PAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Adopted
PAS 10, <i>Events after the Reporting Period</i>	Adopted
PAS 11, <i>Construction Contracts</i>	Not applicable
PAS 12, <i>Income Taxes</i>	Adopted
PAS 16, <i>Property, Plant and Equipment</i>	Adopted
PAS 17, <i>Leases</i>	Adopted
PAS 18, <i>Revenue</i>	Adopted
PAS 19, <i>Employee Benefits</i>	Adopted
PAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Not applicable
PAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>	Adopted
PAS 23, <i>Borrowing Costs</i>	Adopted
PAS 24, <i>Related Party Disclosures</i>	Adopted
PAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i>	Not applicable
PAS 27, <i>Consolidated and Separate Financial Statements</i>	Adopted
PAS 28, <i>Investments in Associates</i>	Adopted
PAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	Not applicable
PAS 31, <i>Interests in Joint Ventures</i>	Adopted
PAS 32, <i>Financial Instruments: Presentation</i>	Adopted
PAS 33, <i>Earnings per Share</i>	Adopted
PAS 34, <i>Interim Financial Reporting</i>	Not applicable
PAS 36, <i>Impairment of Assets</i>	Adopted
PAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Adopted
PAS 38, <i>Intangible Assets</i>	Adopted
PAS 39, <i>Financial Instruments: Recognition and Measurement</i>	Adopted
PAS 40, <i>Investment Property</i>	Adopted
PAS 41, <i>Agriculture</i>	Not applicable
Philippine Interpretation IFRIC-1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Adopted
Philippine Interpretation IFRIC-2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	Not applicable
Philippine Interpretation IFRIC-4, <i>Determining whether an Arrangement contains a Lease</i>	Adopted



<b>PFRSs and PIC Q&amp;As</b>	<b>Adopted/Not adopted/Not applicable</b>
Philippine Interpretation IFRIC-5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	Not applicable
Philippine Interpretation IFRIC-6, <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	Not applicable
Philippine Interpretation IFRIC-7, <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>	Not applicable
Philippine Interpretation IFRIC-9, <i>Reassessment of Embedded Derivatives</i>	Adopted
Philippine Interpretation IFRIC-10, <i>Interim Financial Reporting and Impairment</i>	Not applicable
Philippine Interpretation IFRIC-12, <i>Service Concession Arrangements</i>	Not applicable
Philippine Interpretation IFRIC-13, <i>Customer Loyalty Programmes</i>	Adopted
Philippine Interpretation IFRIC-14, <i>PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	Adopted
Philippine Interpretation IFRIC-16, <i>Hedges of a Net Investment in a Foreign Operation</i>	Adopted
Philippine Interpretation IFRIC-17, <i>Distributions of Non-cash Assets to Owners</i>	Adopted
Philippine Interpretation IFRIC-18, <i>Transfers of Assets from Customers</i>	Adopted
Philippine Interpretation IFRIC-19, <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Adopted
Philippine Interpretation SIC-7, <i>Introduction of the Euro</i>	Not applicable
Philippine Interpretation SIC-10, <i>Government Assistance - No Specific Relation to Operating Activities</i>	Not applicable
Philippine Interpretation SIC-12, <i>Consolidation - Special Purpose Entities</i>	Adopted
Philippine Interpretation SIC-13, <i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>	Adopted
Philippine Interpretation SIC-15, <i>Operating Leases - Incentives</i>	Adopted
Philippine Interpretation SIC-21, <i>Income Taxes - Recovery of Revalued Non-Depreciable Assets</i>	Adopted
Philippine Interpretation SIC-25, <i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>	Adopted
Philippine Interpretation SIC-27, <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	Adopted
Philippine Interpretation SIC-29, <i>Service Concession Arrangements: Disclosures</i>	Not applicable
Philippine Interpretation SIC-31, <i>Revenue - Barter Transactions Involving Advertising Services</i>	Adopted
Philippine Interpretation SIC-32, <i>Intangible Assets - Web Site Costs</i>	Not applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts	Not applicable
PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	Adopted
PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)	Not applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20	Adopted
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements	Not applicable

<b>PFRSs and PIC Q&amp;As</b>	<b>Adopted/Not adopted/Not applicable</b>
prepared on a basis other than going concern	
PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines	Adopted
PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position	Adopted

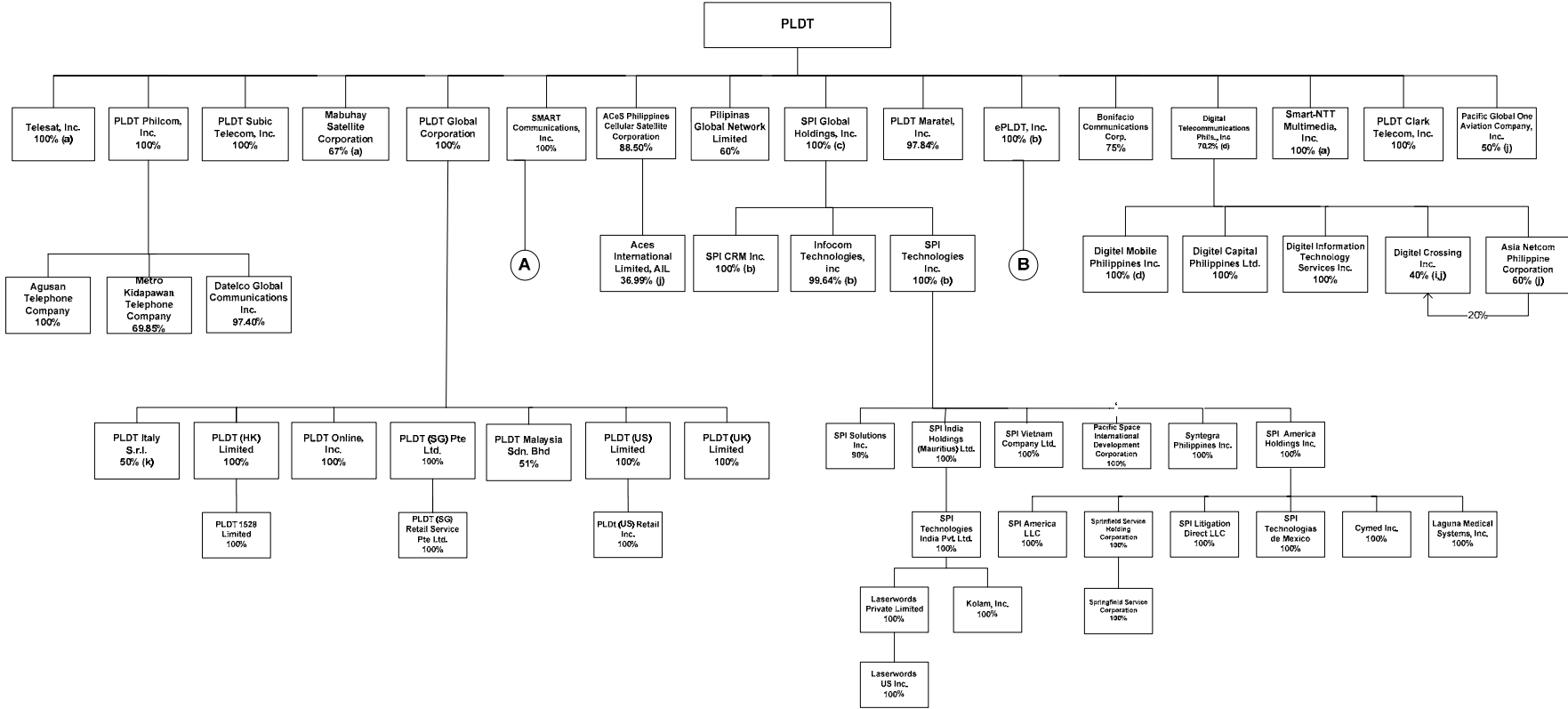
<b>Pronouncements issued but not yet effective</b>	<b>Applicable to annual period beginning on or after</b>	<b>Early application allowed</b>	<b>Remarks</b>
Amendments to PFRS 7: <i>Disclosures—Transfers of Financial Assets</i>	July 1, 2011	Yes	Not early adopted
Amendments to PFRS 7: <i>Disclosures—Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013	Not mentioned	Not early adopted
PFRS 9, <i>Financial Instruments</i>	January 1, 2015	Yes	Not early adopted
PFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2013	Yes	Not early adopted
PFRS 11, <i>Joint Arrangements</i>	January 1, 2013	Yes	Not early adopted
PFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2013	Yes	Not early adopted
PFRS 13, <i>Fair Value Measurement</i>	January 1, 2013	Yes	Not early adopted
Amendments to PAS 1: <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012	Yes	Not early adopted
Amendments to PAS 12— <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012	Yes	Not early adopted
PAS 19, <i>Employee Benefits</i> (Revised)	January 1, 2013	Yes	Not early adopted
PAS 27, <i>Separate Financial Statements</i>	January 1, 2013	Yes	Not early adopted
PAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2013	Yes	Not early adopted
Amendments to PAS 32, <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014	Yes	Not early adopted
Philippine Interpretation IFRIC–15, <i>Agreements for the Construction of Real Estate</i>	Deferred by SEC and FRSC	No	Not early adopted
Philippine Interpretation IFRIC–20, <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013	Yes	Not early adopted
PIC Q&A No. 2011-02: PFRS 3.2 – Common Control Business Combinations	January 1, 2012	Yes	Not early adopted
PIC Q&A No. 2011-03: Accounting for Inter-company Loans	January 1, 2012	Yes	Not early adopted
PIC Q&A No. 2011-04: PAS 32.37-38 – Costs of Public Offering of Shares	January 1, 2012	Yes	Not early adopted
PIC Q&A No. 2011-05: PFRS 1.D1-D8 – Fair Value or Revaluation as Deemed Cost	January 25, 2012	Not mentioned	Not early adopted

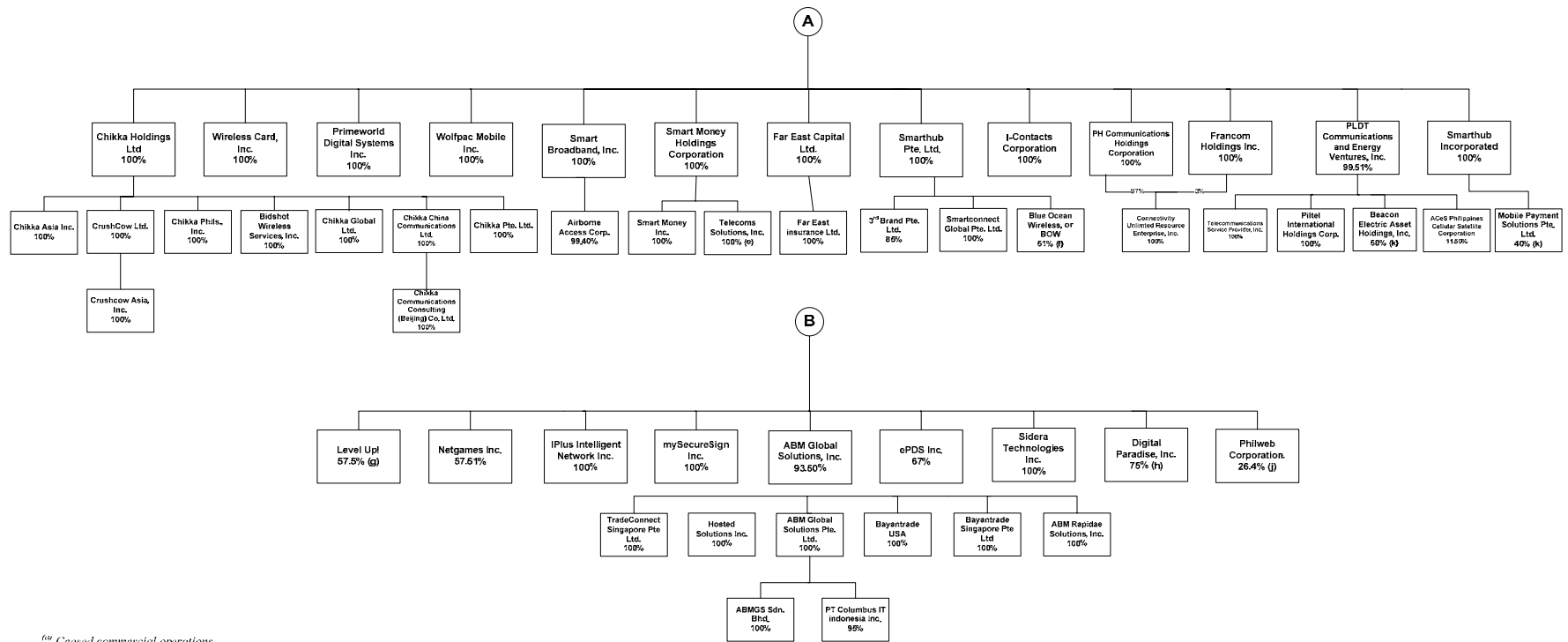
**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2011**

	<b>Amount (in millions)</b>
Unappropriated Retained Earnings, as adjusted to available for dividends distribution, beginning	Php27,495
Add: Net income actually earned/realized during the year	
Net income during the year closed to retained earnings	42,014
Less: Non-actual/unrealized income net of tax	
Unrealized foreign exchange gain – net	(413)
Gain on fair value adjustment of an investment property	(80)
Fair value adjustment (mark-to-market gain)	(1,598)
Cash dividends deducted in retained earnings	(42,059)
	<hr/>
Total Unappropriated Retained Earnings Available for Dividend, End	<b><u>Php25,359</u></b>

Consolidated retained earnings amounting to Php26,232 million as at December 31, 2011 in the consolidated statement of financial position, include the accumulated losses of consolidated subsidiaries, associates and joint ventures accounted for under the equity method amounting to Php2,542 million.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule K. Map of the Relationships of the Companies within the Group**  
**December 31, 2011**





<sup>64</sup> Ceased commercial operations.

<sup>65</sup> On December 6, 2011, SPi, SPi CRM and Infocom were sold by ePLDT to SPi Global to support PLDT's objective to grow the BPO segment.

<sup>63</sup> On July 25, 2011, SPi Global was sold by ePLDT to PLDT and reclassified as a holding company for BPO segment. ePLDT and its remaining subsidiaries were folded to the fixed line business of PLDT. See discussion in Item 1, "Description of Business - Overview"

<sup>66</sup> On October 26, 2011, PLDT acquired 51.6% equity interest in Digital. On December 8, 2011 PLDT exercised the conversion option on convertible and exchangeable bonds issued by Digital and DCPL, respectively, for an aggregate of 4 billion Digital common shares, increasing PLDT's equity interest from 51.6% to 70.2%. At the end of the tender offer period on January 16, 2012, PLDT's equity interest in Digital increased from 70.2% to 98%. The acquisition of 51.6% equity interest in Digital and mandatory tender offer were accounted for as linked transactions, and the acquisition of Digital was treated as if 100% equity interest were obtained up to end of tender offer period where the actual remaining noncontrolling interest is determined. See Note 13 – Business Combinations – PLDT's Acquisition of Digital.

<sup>64</sup> Dissolved on May 3, 2011.

<sup>65</sup> In June 2011, the management and operations of BOW was transferred from SHPL to Stratos BV, a third party.

<sup>66</sup> On July 11, 2011, ePLDT sold its 57.5% interest in Level Up!

<sup>67</sup> On April 1, 2011, ePLDT sold its entire 75% equity interest in Digital Paradise.

<sup>68</sup> Digital Crossing Inc. is 40% owned by Digital Telecommunications Philippines, Inc. and 20% owned by Asia Netcom Philippine Corporation.

<sup>69</sup> Investments in associates.

<sup>65</sup> Investments in joint ventures.

Note: PLDT has no Parent and ultimate Parent Company.

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**  
**Schedule L. Financial Soundness Indicators**  
**December 31, 2011 and 2010**

	December 31,	
	2011	2010
Current Ratio <sup>(1)</sup>	0.62:1.0	0.75:1.0
Debt to Equity Ratio <sup>(2)</sup>	1.60:1.0	1.85:1.0
Asset to Equity Ratio <sup>(3)</sup>	2.60x	2.85x
Interest Coverage Ratio <sup>(4)</sup>	7.60x	9.0x
Profit Margin Ratio <sup>(5)</sup>	0.2x	0.3x
Return on Assets <sup>(6)</sup>	0.1x	0.1x
EBITDA Margin <sup>(7)</sup>	52%	54%

<sup>(1)</sup> Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)

<sup>(2)</sup> Debt to equity ratio is measured as total assets divided to total equity.

<sup>(3)</sup> Asset to equity ratio is measured as total assets divided by total equity.

<sup>(4)</sup> Interest coverage ratio is measured by EBIT, or earnings before interest and taxes, divided by total financing cost

<sup>(5)</sup> Profit margin ratio is derived by dividing net income with total revenues.

<sup>(6)</sup> Return on assets is measured as net income with total assets.

<sup>(7)</sup> EBITDA margin is measured as EBITDA divided by service revenues.

*EBITDA is measured as net income 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).*