PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
March 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2011**

OR

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

OR

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

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines
(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines
(Address of principal executive offices)

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

Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines
(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

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

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

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

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

None

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

11.375% Notes due May 2012

8.350% Notes due March 2017

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

As at December 31, 2011:

214,436,333 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

441,912,370 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

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

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

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

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

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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

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

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

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

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or are to the lawful currency of the European Union. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php43.31 to US$1.00 on December 31, 2011. On March 21, 2012, the volume weighted average exchange rate quoted was Php42.90 to US$1.00.

In this 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.;

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;

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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 the 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 the 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;

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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;

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

NYSE means New York Stock Exchange;

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

PCD means PCD Nominee Corporation;

PCEV means PLDT Communications and Energy Ventures, Inc., (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;

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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.

FORWARD-LOOKING STATEMENTS

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

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

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

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PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2011 and 2010 and for the three years in the period ended December 31, 2011, included in this annual report on Form 20-F have been prepared in conformity with IFRS.

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

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 18 for further discussion.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Performance Indicators

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

Adjusted EBITDA

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

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A reconciliation of our consolidated adjusted EBITDA to our consolidated net income for the years ended December 31, 2011, 2010 and 2009 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying consolidated financial statements in Item 18.

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 IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2011, 2010 and 2009 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying consolidated financial statements in Item 18.

Selected Financial Data

The selected consolidated financial information below as at December 31, 2011 and 2010 and for the three years ended December 31, 2011, 2010 and 2009, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, and the accompanying notes, included elsewhere in Item 18 of this annual report on Form 20-F. As disclosed above under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 have been prepared and presented in conformity with IFRS.

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	2011[1]	2011[2]	2010	2009	2008	2007
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)					
Statements of Operating Data:						
Revenues	US$ 3,566	Php 156,603	Php 158,387	Php 162,023	Php 160,492	Php 152,908
Service revenues[3]	3,505	153,958	156,170	159,597	157,528	149,682
Non-service revenues	60	2,645	2,217	2,426	2,964	3,226
Expenses[3]	2,582	113,382	102,831	104,141	100,441	97,791
Net income for the year	720	31,637	40,259	40,095	34,976	39,274
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	3.72	163.24	212.85	210.38	179.96	205.84
Diluted	3.71	163.10	212.85	210.36	179.95	204.88
Balance Sheets Data:						
Cash and cash equivalents	1,049	46,057	36,678	38,319	33,684	17,447
Total assets	9,008	395,646	277,815	280,148	252,558	240,158
Total long-term debt net of current portion	2,078	91,273	75,879	86,066	58,899	53,372
Total debt[4]	2,670	117,275	89,646	98,729	73,911	60,640
Total liabilities	5,543	243,427	180,430	181,023	145,589	127,813
Total equity	3,457	151,833	97,069	99,125	106,969	112,345
Weighted average number of common shares for the year (in thousands)		191,369	186,790	186,916	188,163	188,656
Other Data:						
Depreciation and amortization	637	27,957	26,277	25,607	24,709	28,613
Ratio of earnings to fixed charges[5]	6.2x	6.2x	7.4x	7.7x	8.0x	8.3x
Net cash provided by operating activities	1,803	79,209	77,260	74,386	78,302	77,418
Net cash used in investing activities	677	29,712	23,283	49,132	17,014	31,319
Net cash used in financing activities	915	40,204	55,322	20,293	45,464	44,819
Dividends declared to common shareholders	944	41,460	40,909	38,758	36,578	28,299
Dividends declared per common share	5.05	222.00	219.00	207.00	194.00	150.00

(1) *We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2011, has been translated into U.S. dollars at the exchange rate of Php43.92 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2011. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.*

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

(3) *The 2007 to 2010 results have been restated, as discussed above, to reflect the change in the presentation of our outbound revenues. See Presentation of Financial Information section.*

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

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

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

Capital Stock

The following table summarizes PLDT s capital stock issued as at December 31, 2011 and 2010:

	December 31, 2011	2010
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to II	Php 4,059	Php 4,059
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360	360
	Php 4,419	Php 4,419
Common Stock	Php 1,072	Php 947

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Dividends Declared

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

Earnings	Approved	Date Record	Payable	Amount Per share (in pesos)	Amount Total Declared (in million)
2009	August 4, 2009	August 20, 2009	September 22, 2009	77	Php 14,384
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	Php 38,578

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 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 18. 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.

Dividends Paid

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

	In Philippine Peso	In U.S. Dollars
2007	150.00	3.26
2008	194.00	4.47
Regular Dividend April 21, 2008	68.00	1.62
Regular Dividend September 22, 2008	70.00	1.51
Special Dividend April 21, 2008	56.00	1.34
2009	207.00	4.30
Regular Dividend April 21, 2009	70.00	1.45
Regular Dividend September 22, 2009	77.00	1.62

Special Dividend	April 21, 2009	60.00	1.24
2010		219.00	4.95
Regular Dividend	April 20, 2010	76.00	1.71
Regular Dividend	September 21, 2010	78.00	1.78
Special Dividend	April 20, 2010	65.00	1.46
2011		222.00	5.10
Regular Dividend	April 19, 2011	78.00	1.80
Regular Dividend	September 27, 2011	78.00	1.78
Special Dividend	April 19,2011	66.00	1.52

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

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Exchange Rates

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

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

	Year Ended December 31,			
	Period End	**Average**[1]	**High**[2]	**Low**[3]
2007	Php 41.41	Php 45.88	Php 41.14	Php 49.16
2008	47.65	44.71	40.36	49.98
2009	46.43	47.82	45.95	49.06
2010	43.81	45.10	42.52	46.98
2011	43.92	43.28	41.96	44.59
2012 (through March 22, 2012)	43.05	42.90	42.19	44.25

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates on the last day of each month during the period.*
(2) *Highest exchange rate for the period.*
(3) *Lowest exchange rate for the period.*

	Month			
	Period End	**Average**[1]	**High**[2]	**Low**[3]
2011				
September	Php 43.80	Php 43.09	Php 42.20	Php 43.84
October	42.61	43.39	42.61	44.10
November	43.63	43.33	42.85	43.82
December	43.92	43.66	43.26	44.24
2012				
January	42.92	43.57	42.86	44.25
February	42.72	42.65	42.19	43.04
March (through March 22, 2012)	43.05	42.83	42.50	43.06

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates during the month.*
(2) *Highest exchange rate for the month.*
(3) *Lowest exchange rate for the month.*

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2011 of Php43.92 to US$1.00. You should not assume that such Philippine peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 21, 2012, the exchange rate quoted through the Philippine Dealing System was Php43.03 to US$1.00. Unless otherwise specified, the weighted average exchange rate of the Philippine peso to the U.S. dollar for a given year used in the following discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

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Risk Factors

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 operators in the country. Many entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technology and funding support, as well as service innovations and marketing strategies. We cannot assure you that the number of providers of 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.

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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 4. Information on the Company 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 4. Information on the Company 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 No. 45 designated the Department of Justice, or the DOJ, as the Competition Authority and established the Office for Competition under it, to among others, investigate violations of competition laws and prosecute violators thereof. 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 orfacilities 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.

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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 that 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 Executive Order (EO) No. 45 on June 9, 2011 designating the Department of Justice, or 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 4. Information on the Company Development Activities (2009-2011) 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.

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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.

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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 5. Operating and Financial Review and Prospects 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.

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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:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- global economic and financial trends;
- the volatility of regional currencies, particularly the Japanese yen;
- any interest rate increases by the Federal Reserve Bank of the United States; and
- changes in the value of the U.S. dollar relative to Philippine peso, resulting from events such as higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

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

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

Creditors of our subsidiaries generally have priority claims over our subsidiaries assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed 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 JG Summit Holdings, or JGS, pursuant to an option agreement in connection with the Digitel acquisition. See Item 4. Information on the Company Historical Background and Development. 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. Information on the Company 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 7. Major Shareholders and Related Party Transactions for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US$50 million;

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

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

- 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

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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

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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.

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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 4. Information on the Company

Overview

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments, wireless, fixed line and 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, or US$12,411 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, or US$3,566 million, and net income attributable to equity holders of PLDT of Php31,697 million, or US$722 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.

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT s corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT s incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary 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

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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 7. Major Shareholders and Related Party Transactions for further discussion.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from 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 NTTC-UK) 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 18 for further information.

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.

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*. The contents of our website are not a part of this annual report.

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

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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 18 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 18 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.

Business Overview

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. See Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization to the accompanying consolidated financial statements in Item 18 for further information.

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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,

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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 Group and customer relationship management though 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.

Capital Expenditures and Divestitures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for information concerning our principal capital expenditures for the years ended December 31, 2009, 2010 and 2011 and those planned for 2012. We have not undertaken any significant divestitures and currently do not have any significant divestitures in progress.

Organization

PLDT Group includes the following significant subsidiaries as at March 22, 2012:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Indirect
Wireless				
Smart:	Philippines	Cellular mobile services	**100.0**	
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution services		**100.0**
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		**100.0**
I-Contacts Corporation, or I-Contacts	Philippines	Call center services		**100.0**
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		**100.0**
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		**100.0**
Smarthub, Inc., or SHI	Philippines	Software development and sale of maintenance and support services		**100.0**
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		**100.0**
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		**100.0**

Telecoms Solutions, Inc., or TSI[(a)]	Mauritius	Mobile commerce platforms	
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**100.0**
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	**100.0**
Francom Holdings, Inc., or FHI:	Philippines	Investment company	**100.0**
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	**100.0**

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Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Indirect
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider		**100.0**
Smarthub Pte. Ltd. (formerly SmartConnect Holdings Pte. Ltd.), or SHPL:	Singapore	Investment company		**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**
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		**85.0**
Blue Ocean Wireless, or BOW[(b)]	Isle of Man	Delivery of GSM communication capability for the maritime sector		
Telesat, Inc., or Telesat[(c)]	Philippines	Satellite communications services	**100.0**	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**
Mabuhay Satellite Corporation, or Mabuhay Satellite[(c)]	Philippines	Satellite communications services	**67.0**	
Digitel Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digitel[(g)]	Philippines	Cellular mobile services		**99.4**
Fixed Line				
ePLDT, Inc., or ePLDT[(d)]:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	**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**
Digital Paradise, Inc., or Digital Paradise[(e)]	Philippines	Internet services		
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS		**67.0**
netGames, Inc., or netGames	Philippines	Customer relationship management		**57.5**
Level Up!, Inc., or Level Up![(f)]	Philippines	Publisher of online games		
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**	
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**	
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	**100.0**	
Smart-NTT Multimedia, Inc., or SNMI[(c)]	Philippines	Data and network services	**100.0**	
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	**100.0**	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**97.8**	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	**75.0**	
Digitel[(g)]	Philippines	Telecommunications services	**99.4**	
Digitel Capital Philippines Ltd., or DCPL	British Virgin Islands	Telecommunications services		**99.4**
Digitel Information Technology Services, Inc. or DITSI	Philippines	Internet services		**99.4**
Pilipinas Global Network Limited, or PGNL	British Virgin Islands	International distributor of Filipino channels and content	**60.0**	
BPO				
SPi Global Holdings, Inc., or SPi Global[(h)]	Philippines	Investment company	**100.0**	
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group[(d)]	Philippines	Knowledge processing solutions		**100.0**
SPi CRM, Inc., or SPi CRM[(d)]	Philippines	Customer relationship management		**100.0**
Infocom Technologies, Inc., or Infocom[(d)]	Philippines	Customer relationship management		**99.6**

Others			
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	**99.5**

[(a)] *Dissolved on May 3, 2011.*

[(b)] *In June 2011, the management and operations of BOW were sold by SHPL to Stratos BV, a third party.*

[(c)] *Ceased commercial operations.*

[(d)] *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.*

[(e)] *On April 1, 2011, ePLDT sold its entire 75% equity interest in Digital Paradise.*

[(f)] *On July 11, 2011, ePLDT sold its 57.5% interest in Level Up!.*

[(g)] *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 to the accompanying consolidated financial statements in Item 18 for further discussion.*

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(h) *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 to the accompanying consolidated financial statements to the accompanying consolidated financial statements in Item 18 for further discussion.*

Development Activities (2009-2011)

PLDT s Investment in Philcom

On January 3, 2009, PLDT, PremierGlobal Resources and PGCI executed a Share Assignment Agreement wherein PGCI sold to PLDT the rights, title and interest in all of the outstanding common shares of Philcom s common stock for a cash consideration of Php75 million.

Additional Investment of ePLDT in BayanTrade

ePLDT s equity interest in BayanTrade increased from 10.8% as at December 31, 2008 to 93.5% as at December 31, 2009 as a result of a 34.3% equity interest acquired by ePLDT through a rights offering completed on January 20, 2009 for a cash consideration of Php28 million and the acquisition of an additional 48.4% equity interest on April 15, 2009 for cash consideration of Php39 million.

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.

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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 18 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.

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.

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.

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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.

SPi s Acquisition of Laguna Medical

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 adjusted 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.

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.

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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 Quantium 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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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.

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. 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.

PLDT s Acquisition of a controlling interest in Digitel from JGS

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.

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 *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 18 for further information on the effect of the Digitel acquisition on PLDT and its businesses.

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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.

Business Reorganization

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. See Recent Developments Beacon s Acquisition of Additional Meralco Shares and N*ote 10 Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 18.

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 *Note 2 Summary of Significant Accounting Policies*, *Note 13 Business Combinations* and *Note 14 Goodwill and Intangible Assets* to the accompanying consolidated financial statements in Item 18 for further discussion regarding these and other acquisitions.

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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

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and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Strategy

The key elements of our business strategy are:

Build on our leading positions in the fixed line and wireless businesses. We plan to continue building on our position as the leading fixed line and wireless service 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.

Business

Wireless

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

Cellular Service

Overview

Our cellular business, which we provide through Smart, 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.

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

	2011[1]	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
Smart Prepaid	*26,573,137*	*25,293,443*	*23,762,814*
Talk N Text	*20,467,175*	*18,967,381*	*17,050,713*
Red Mobile[3]	*1,438,384*	*953,609*	*79,571*
Sun Cellular	*13,314,096*		
Postpaid	1,903,837	421,575	435,543
Smart	*550,485*	*421,575*	*435,543*
Red Mobile[4]	*263*		
Sun Cellular	*1,353,089*		
Growth rate of cellular subscribers			
Prepaid			
Smart Prepaid	*5%*	*6%*	*16%*
Talk N Text	*8%*	*11%*	*19%*
Red Mobile	*51%*	*1,098%*	*386%*
Postpaid			
Smart	*31%*	*(3%)*	*9%*
Red Mobile[4]	*100%*		
Cellular revenues (in millions) [2]	Php 93,645	Php 95,520	Php 98,145
Voice[2]	43,885	45,678	43,642
Data[2]	47,235	47,236	52,031
Others[5]	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%

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

(2) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

(3) *Red Mobile prepaid was launched in November 2008 by CURE.*

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

(5) *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*, 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 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.

Smartalk, Smart s unlimited voice offering, is available to *Smart Prepaid* and *Smart Postpaid* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Prepaid* and *Smart Postpaid* subscribers to make unlimited calls to any subscriber on the Smart network (on-net). Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in these denominations:

Smartalk Lite 15 which offers unlimited calls from 1:00 a.m. to 11:00 a.m. for Php15;

Smartalk 20 which offers one day of unlimited calls for Php20 up to the first six Smart network numbers;

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Smartalk 100 which offers five days of unlimited calls for Php100; and

Smartalk 500 which offers 30 days of unlimited calls for Php500.

Smartalk Plus which includes unlimited on-net calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:00 p.m. to 5:00 p.m., and call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 9:59 p.m.

Smartalk Unli Call and Text which is available in *Php25*, *Php50*, *Php100*, *Php150* and *Php299* denominations, offers unlimited on-net call and text plus a pre-determined number of free texts to all networks depending on the denomination subscribed.

Through the *Talk N Text UniTalk Plus 100* package, existing *Talk N Text* subscribers can avail of unlimited off-peak calls from 10:00 p.m. to 5:00 p.m. and special peak hour rates of Php2.50 per minute from 5:01 p.m. to 9:59 p.m. to any *Smart Prepaid*, *Smart Postpaid* and *Talk N Text* subscriber. The package also includes all day unlimited texting to any *Smart Prepaid*, *Smart Postpaid* and *Talk N Text* subscriber. Each registration to this promo is valid for five days. *Talk N Text* also has *UnliTalk 100* which offers five days of unlimited calls to *Talk N Text* and Smart subscribers.

In 2011, Smart expanded its roster of unlimited offerings on the back of the planned capacity expansion of its networks. 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 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 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.

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

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 and 80 key account dealers, of which 21 are exclusive, including DMPI s 68 regional distributors and 46 key account dealers, of which three 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.

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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 Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. See *Note 24 Related Party Transactions* and *Note 27 Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 18 for further discussion regarding the ATPA.

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

Revenues

Our revenues from wireless broadband, 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.

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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 service as at and for the years ended December 31, 2011, 2010 and 2009:

	2011[1]	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) [2]	Php 15,108	Php 15,342	Php 15,681
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%

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

(2) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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.

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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[(1)]	**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) [(2)]	Php 11,243	Php 11,112	Php 11,581
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%	6%	7%

(1) *Includes Digitel s revenues and call volumes for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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	20
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	30
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 service through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling services 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.

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

	2011[1]	2010	2009
Total call volumes (in million minutes)	1,040	1,290	1,822
Total national long distance service revenues (in millions) [2]	Php 5,525	Php 6,487	Php 7,853
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%

(1) *Includes Digitel s revenues and call volumes for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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.

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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[(1)]	2010	2009
Subscriber base:			
Broadband	*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) [(2)]	Php 24,093	Php 22,785	Php 22,697
Domestic	16,647	15,646	16,393
Broadband	*9,940*	*8,511*	*7,232*
DSL	9,664	8,263	7,024
WeRoam	276	248	208
Leased Lines and Others	*6,707*	*7,135*	*9,161*
International			
Leased Lines and Others	*6,310*	*6,241*	*5,491*
Vitro™ Data Center	1,136	898	813
Data and other network service revenues as a percentage of total fixed line service revenues	41%	39%	37%
Data and other network service revenues as a percentage of total service revenues	14%	13%	13%

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

(2) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the implementation of the reorganization of our business segments, as discussed in the Development Activities (2009 2011) Business Reorganization section.*

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

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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™ 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.

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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 4. Information on the Company 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 P67 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 d 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:

Cable System	**Countries Being Linked**
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.
Asia-America Gateway	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland

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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 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$0.125 per minute in 2011, 2010 and 2009. 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.

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The average termination rates for international calls terminating Digitel were approximately US$0.100 per minute in 2011 and 2010, and US$0.1010 per minute in 2009 and for international calls terminating DMPI were approximately US$0.1035 per minute, in 2011 and 2010, and US$0.1041 per minute in 2009. 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 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 3. Key Information Risk Factors Risk 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.

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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 03, 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 10 MHz 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.

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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 4. Information on the Company Development Activities (2009-2011) Divestment of CURE for further information.

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	897.5-905/942.5-950 MHz	7.5 MHz
	GSM 1800	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
		1745-1750/1840-1845 MHz	5.0 MHz
		1780-1782.5/1875-1877.5 MHz	2.5 MHz
	3G (W-CDMA)	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(1)	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
	Wireless broadband	2670-2690 MHz(2)	20.0 MHz
		2400-2483.5 MHz(2)	73.0 MHz
		3400-3590 MHz(2)	94.0MHz

		5470-5850 MHz[2]	123.0MHz
CURE	3G	1955-1965/2145-2155 MHz[4]	10.0 MHz
PDSI	BWA (WiMAX)	2332.5-2362.5 MHz[3]	30.0 MHz

(1) *On January 8, 2010, the NTC approved the transfer of PCEV s CPCN to SBI.*

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

(3) *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.*

(4) *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 4. Information on the Company Development Activities (2009-2011) Divestment of CURE for further information.*

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 permit, 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 8. Financial Information 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 15th 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 15th 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.

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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 3. Key Information Risk Factors 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 3. Key Information Risk Factors The franchise of Smart and DMPI may be revoked due to their failure to conduct a public offering of their shares for further discussion.

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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.

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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.

Environmental Matters

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

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.

Properties

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 18.

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 equipment. 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 18.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements (and the related notes) as at December 31, 2011 and 2010 and for the three years in the period ended December 31, 2011 included elsewhere in this 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 as a result of particular factors such as those set forth under Forward-Looking Statements and Item 3. Key Information Risk Factors and elsewhere in this report. Our consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. For convenience, certain Philippine peso financial information in the following discussions has been translated to U.S. dollars at the exchange rate at December 31, 2011 of Php43.92 to US$1.00, as quoted through the Philippine Dealing System.

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

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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.

For a more detailed overview of our three main business segments, see Item 4. Information on the Company Organization Wireless , Item 4. Information on the Company Organization Fixed Line and Item 4. Information on the Company Organization Business Process Outsourcing , respectively.

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. See Item 3. Key Information Risk Factors Our result of operations and financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar for further discussion.

On October 26, 2011, we completed the acquisition of the Digitel Group. Our historical consolidated financial statements for the years ended on December 31, 2010 and 2009 do not include financial results of the Digitel Group, and neither pro forma nor historical consolidated financial statements showing our combined results of operations and financial position with Digitel Group, have been prepared or are being provided in this annual report. Our financial statements for the year ended December 31, 2011 include the financial results of the Digitel Group for the period from October 26, 2011 to December 31, 2011. As a result, this may make it difficult to compare our past results of operations and financial position or to estimate our consolidated performance in the future.

Management s Financial Review

As discussed in Item 3. Key Information Performance Indicators , we use our adjusted EBITDA and core income to assess our operating performance; a reconciliation of our consolidated adjusted 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.

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

	2011[1]	2010	2009
		(in millions)	
Consolidated adjusted EBITDA	Php 79,959	Php 83,717	Php 86,194
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	Php 31,637	Php 40,259	Php 40,095

[1] *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[1]	2010	2009
		(in millions)	
Consolidated core income for the year	Php 39,035	Php 42,028	Php 41,138
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	Php 31,637	Php 40,259	Php 40,095

[1] *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS 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. See discussions in *Note 2 Summary of Significant Accounting Policies* and *Note 4 Operating Segment Information* to the accompanying consolidated financial statements in Item 18.

As a result of the internal reorganization within PLDT wherein BPO is now 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 *IAS 21*, *The Effects of Changes in Foreign Exchange Rates,* SPi Global and SPi CRM commenced adopting U.S. dollars as its functional currency starting on December 6, 2011.

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 *IAS 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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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 noncontrolling 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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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

IFRS 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.

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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 IFRS.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18, respectively, for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

Share-based payment 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 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* to the accompanying consolidated financial statements in Item 18 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

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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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion. 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.

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. See *Note 5 Income and Expenses, Note 18 Prepayments* and *Note 25 Share-based Payments and Employee Benefits* to the accompanying consolidated financial statements in Item 18 for further discussion.

The 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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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 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* to the accompanying consolidated financial statements in Item 18 for further discussion.

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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* to the accompanying consolidated financial statements in Item 18 for further discussion.

New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2011

See *Note 2 Summary of Significant Accounting Policies* to the accompanying consolidated financial statements in Item 18 for the discussion of new accounting standards that will become effective subsequent to December 31, 2011 and their anticipated impact on our consolidated financial statements for the current and future periods.

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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), adjusted EBITDA, adjusted 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.

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
December 31, 2011[1]						
Revenues	Php 103,538	Php 60,006	Php 8,588	Php	(Php 15,529)	Php 156,603
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
Adjusted EBITDA	55,393	22,675	1,558	(11)	344	79,959
Adjusted EBITDA margin[2]	54%	39%	18%	(100%)		52%
Core income	29,903	5,765	906	2,461		39,035
December 31, 2010[3]						
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
Adjusted EBITDA	58,964	23,047	1,270	(19)	455	83,717
Adjusted EBITDA margin[2]	57%	39%	16%	(100%)		54%
Core income	33,352	5,845	765	2,066		42,028
December 31, 2009[3]						
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
Adjusted EBITDA	59,411	25,512	950		321	86,194
Adjusted EBITDA margin[2]	56%	42%	11%			54%
Core income	31,715	8,344	(230)	1,311	(2)	41,138

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

(2) *Adjusted EBITDA margin is measured as adjusted EBITDA divided by service revenues.*

(3) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization section.*

The table below shows the contribution by business segment of the results of the Digitel 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, adjusted EBITDA, adjusted EBITDA margin and core income for the period from October 26, 2011 to December 31, 2011.

	Wireless	Fixed Line	Consolidated (in millions)	Intercompany Transactions	Incremental Effect on PLDT Group
For the period from October 26, 2011 to December 31, 2011					
Revenues	Php 3,184	Php 706	Php 3,890	(Php 45)	Php 3,845
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
Adjusted EBITDA	1,137	(60)	1,077	(21)	1,056
Adjusted EBITDA margin[1]	37%	(8%)	28%		28%
Core income	154	(397)	(243)	234	(9)

[1] *Adjusted EBITDA margin is measured as adjusted EBITDA divided by service revenues for the period.*

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2011 Compared to 2010

On a Consolidated Basis

We reported consolidated revenues of Php156,603 million in 2011, which includes revenue contribution from the Digitel 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[1]	%	2010[2] (in millions)	%	Change Amount	%
Wireless	Php 103,538	66	Php 105,381	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	Php 156,603	100	Php 158,387	100	(Php1,784)	(1)

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

Consolidated expenses increased by Php10,551 million, or 10%, to Php113,382 million in 2011, which includes expenses from the Digitel 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[1]	%	2010[2] (in millions)	%	Change Amount	%
Wireless	Php 71,049	62	Php 59,807	58	Php 11,242	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	Php 113,382	100	Php 102,831	100	Php 10,551	10

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section and the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

Consolidated other expenses in 2011 amounted to Php544 million, which includes other expenses from the Digitel 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

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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[1]	**%**	**2010**[2]	**%**	**Change Amount**	**%**
			(in millions)			
Wireless	(Php 1,694)	311	(Php 136)	7	(Php 1,558)	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	(Php 544)	100	(Php 1,871)	100	(Php 1,327)	(71)

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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[1]	**%**	**2010**[2]	**%**	**Change Amount**	**%**
			(in millions)			
Wireless	Php 22,366	71	Php 34,025	85	(Php 11,659)	(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	Php 31,637	100	Php 40,259	100	(Php 8,622)	(21)

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

Adjusted EBITDA

Our consolidated adjusted EBITDA was Php79,959 million in 2011, which includes an adjusted EBITDA contribution from the Digitel Group of Php1,056 million for the period from October 26, 2011 to December 31, 2011,

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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 adjusted EBITDA by business segment for the years ended December 31, 2011 and 2010:

	2011[(1)]	%	2010[(2)] (in millions)	%	Change Amount	%
Wireless	Php 55,393	69	Php 58,964	70	(Php 3,571)	(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	Php 79,959	100	Php 83,717	100	(Php 3,758)	(4)

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

Core Income

Our consolidated core income was Php39,035 million in 2011, which includes a loss from the Digitel 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[(1)]	%	2010[(2)] (in millions)	%	Increase (Decrease) Amount	%
Wireless	Php 29,903	77	Php 33,352	79	(Php 3,449)	(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	Php 39,035	100	Php 42,028	100	(Php 2,993)	(7)

(1) *Includes the Digitel Group s results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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.

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

	2011[1]	%	2010 (in millions)	%	Increase (Decrease) Amount	%
Service Revenues:						
Cellular[2]	Php 93,645	90	Php 95,520	91	(Php 1,875)	(2)
Wireless broadband, satellite and others						
Wireless broadband[2]	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	Php 103,538	100	Php 105,381	100	(Php 1,843)	(2)

(1) *Includes DMPI s revenues for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Highlights section.*

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	Php 2,808	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	Php 3,184	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 as a result 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

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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.

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

	2011[1]	**2010**[2]	**Increase (Decrease) Amount**	**%**
		(in millions)		
Cellular service revenues	Php 93,645	Php 95,520	(Php 1,875)	(2)
By service type	*91,120*	*92,914*	*(1,794)*	*(2)*
Prepaid	81,648	84,385	(2,737)	(3)
Postpaid	9,472	8,529	943	11
By component	*91,120*	*92,914*	*(1,794)*	*(2)*
Voice	43,885	45,678	(1,793)	(4)
Data	47,235	47,236	(1)	
Others[3]	*2,525*	*2,606*	*(81)*	*(3)*

(1) *Includes DMPI s revenues for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*
(3) *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	Php 2,808
By service type	*2,757*
Prepaid	1,558
Postpaid	1,199
By component	*2,757*
Voice	1,537
Data	1,220
Others	*51*

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The following table shows our other key measures of Smart s, CURE s and Digitel s 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
Smart Prepaid	*26,573,137*	*25,293,443*	*1,279,694*	*5*
Talk N Text	*20,467,175*	*18,967,381*	*1,499,794*	*8*
Red Mobile	*1,438,384*	*953,609*	*484,775*	*51*
Sun Cellular[1]	*13,314,096*		*13,314,096*	
Postpaid	1,903,837	421,575	1,482,262	352
Smart	*550,485*	*421,575*	*128,910*	*31*
Red Mobile[2]	*263*		*263*	
Sun Cellular[1]	*1,353,089*		*1,353,089*	
Systemwide traffic volumes (in millions)				
Calls (in minutes)[3]	41,251	26,813	14,438	54
Domestic	38,166	23,787	14,379	60
Inbound	*1,350*	*1,437*	*(87)*	*(6)*
Outbound	*36,816*	*22,350*	*14,466*	*65*
International	3,085	3,026	59	2
Inbound	*2,862*	*2,817*	*45*	*2*
Outbound	*223*	*209*	*14*	*7*
SMS/Data count (in hits)[4]	354,135	341,113	13,022	4
Text messages	351,502	339,530	*11,972*	*4*
Domestic	350,858	339,011	*11,847*	*3*
Inbound	*10,477*	*8,058*	2,419	30
Outbound	*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*
Inbound	*363*	*211*	152	72
Outbound	*281*	*308*	(27)	(9)
Value-Added Services	2,596	1,557	1,039	67
Financial Services	37	26	11	42

(1) *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.*

(2) *Red Mobile postpaid was launched on March 17, 2011.*

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

(4) *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 of 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 Digitel 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 Digitel 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.

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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[(1)]	2010[(2)]	Decrease Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php 4,963	Php 5,203	(Php 240)	(5)
Outbound	22,442	22,807	(365)	(2)
	27,405	28,010	(605)	(2)
International				
Inbound	13,906	14,738	(832)	(6)
Outbound	2,574	2,930	(356)	(12)
	16,480	17,668	(1,188)	(7)
Total	Php 43,885	Php 45,678	(Php 1,793)	(4)

(1) *Includes DMPI s revenues for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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:	
Domestic	*Php 1,396*
Inbound	198
Outbound	1,198
International	*141*
Inbound	4
Outbound	137
Total	Php 1,537

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 Digitel 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 Digitel 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 Digitel 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:

			Increase (Decrease)	
	2011[(1)]	**2010**[(2)]	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php 40,096	Php 41,070	(Php 974)	(2)
Bucket-Priced/Unlimited	23,164	23,836	(672)	(3)
Standard	16,932	17,234	(302)	(2)
International	3,612	3,534	78	2
	43,708	44,604	(896)	(2)
Value-added services				
Internet-based[(3)]	1,707	858	849	99
Pasa Load/Give-a-load[(4)]	664	483	181	37
SMS-based[(5)]	652	684	(32)	(5)
MMS-based[(6)]	458	568	(110)	(19)
	3,481	2,593	888	34
Financial services	46	39	7	18
Total	Php 47,235	Php 47,236	(Php 1)	

(1) *Includes DMPI s revenues for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

(3) *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.*

(4) *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.*

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

(6) *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.*

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

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

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.

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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)
Smart Prepaid	*1,279,694*	*1,530,629*	*(250,935)*	*(16)*
Talk N Text	*1,499,794*	*1,916,668*	*(416,874)*	*(22)*
Red Mobile	*484,775*	*874,038*	*(389,263)*	*(45)*
Postpaid	129,173	(13,968)	143,141	1,025
Smart	*128,910*	*(13,968)*	*142,878*	*1,023*
Red Mobile[1]	*263*		*263*	*100*
Total	3,393,436	4,307,367	(913,931)	(21)

[1] *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 1Q	2011 2Q	2011 3Q	2011 4Q	2010 1Q	2010 2Q	2010 3Q	2010 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
Smart Prepaid	*441,647*	*344,695*	*49,479*	*443,873*	*1,271,132*	*730,346*	*(588,862)*	*118,013*
Talk N Text	*433,157*	*376,960*	*(254,815)*	*944,492*	*394,984*	*562,375*	*128,786*	*830,523*
Red Mobile	*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
Smart	*8,835*	*(658)*	*46,992*	*73,741*	*9,870*	*(5,569)*	*(21,266)*	*2,997*
Red Mobile	*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.

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

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
Smart Prepaid	Php 198	Php 220	(Php 22)	(10)	Php 173	Php 193	(20)	(10)
Talk N Text	124	139	(15)	(11)	109	122	(13)	(11)
Red Mobile	38	11	27	245	33	9	24	267
Prepaid Blended[4]	162	183	(21)	(11)	142	161	(19)	(12)
Postpaid								
Smart Postpaid	1,548	1,678	(130)	(8)	1,511	1,638	(127)	(8)
Red Mobile[5]	373		373	100	373		373	100
Postpaid Blended[6]	1,548	1,678	(130)	(8)	1,510	1,638	(128)	(8)
Prepaid and Postpaid Blended[7]	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[1]	Net[2]
Sun Cellular[3]		
Prepaid	Php 75	Php 65
Postpaid	450	447

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

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, 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.*

(3) *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.*

(4) *The average monthly ARPU of Smart Prepaid, Talk N Text and Red Mobile.*

(5) *Red Mobile postpaid was launched on March 17, 2011.*

(6) *The average monthly ARPU of Smart and Red Mobile postpaid.*

(7) *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.

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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[1]	
	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]
2011										
First Quarter	Php 205	Php 180	Php 129	Php 113	Php 32	Php 28	Php 1,610	Php 1,557	Php 133	Php 133
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
2010										
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		

(1) *Red Mobile postpaid was launched on March 17, 2011.*

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

(3) *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 18.*

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.

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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 999 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[1]	%	2010[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php 14,295	20	Php 13,243	22	Php 1,052	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[3]	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	Php 71,049	100	Php 59,807	100	Php 11,242	19

(1) *Includes DMPI s expenses for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the transfer of PCEV from Wireless to Others business segment, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

(3) *Includes salaries and employee benefits, LTIP, pension and manpower rightsizing program, or MRP, costs.*

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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:

	2011 (in millions)	%
Depreciation and amortization	Php 907	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	Php 3,083	100

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[(1)]	Change Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php 677	Php 551	Php 126	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	(Php 1,694)	(Php 136)	(Php 1,558)	1,146

(1) *The 2010 other income and expenses have been restated to reflect the transfer of PCEV from Wireless to Others business segment, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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.

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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.

Adjusted EBITDA

As a result of the foregoing, our wireless business adjusted EBITDA decreased by Php3,571 million, or 6%, to Php55,393 million in 2011, which includes adjusted 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[1]	%	2010[2] (in millions)	%	Increase (Decrease) Amount	%
Service Revenues:						
Local exchange	Php 15,108	25	Php 15,342	25	(Php 234)	(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	Php 60,006	100	Php 60,158	100	(Php 152)	

(1) *Includes Digitel s revenues for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 revenues have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business, as discussed in the Presentation of Financial Presentation section.*

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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:

	2011 (in millions)	%
Fixed Line Services:		
Service Revenues:		
Local exchange	Php 178	25
International long distance	239	34
National long distance	68	10
Data and other network	221	31
Total Fixed Line Revenues	706	100

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:

	2011[1]	2010[2]	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,108	Php 15,342	(Php 234)	(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)

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

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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:

	2011
Total local exchange service revenues (in millions)	Php 178
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[(1)]	2010[(2)]	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php 11,243	Php 11,112	Php 131	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		

(1) *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.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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[(1)]	2010[(2)]	Decrease Amount	%
Total national long distance service revenues (in millions)	Php 5,525	Php 6,487	(Php 962)	(15)
National long distance call volumes (in million minutes)	1,040	1,290	(250)	(19)

(1) *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.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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

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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[1]	2010[2]	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php 24,093	Php 22,785	Php 1,308	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*

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

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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)	Php 221
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.

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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.

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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:

					Increase (Decrease)	
	2011[(1)]	**%**	**2010**[(2)]	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php 13,244	26	Php 12,638	25	Php 606	5
Compensation and employee benefits[(3)]	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)
Total	Php 50,620	100	Php 50,243	100	Php 377	1

(1) *Includes Digitel s expenses for the period from October 26, 2011 to December 31, 2011.*

(2)

The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.

(3) *Includes salaries and employee benefits, LTIP, pension and MRP costs.*

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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	Php 184	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
Total	Php 726	100

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%, 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:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php 590	Php 499	Php 91	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	(Php 593)	(Php 2,694)	Php 2,101	(78)

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.

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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.

Adjusted EBITDA

As a result of the foregoing, our fixed line business adjusted EBITDA decreased by Php372 million, or 2%, to Php22,675 million in 2011, which includes adjusted 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[1] (in millions)	%	Increase Amount	%
Service Revenues:						
Knowledge processing solutions	Php 5,721	67	Php 5,289	65	Php 432	8
Customer relationship management	2,867	33	2,823	35	44	2
Total BPO Revenues	Php 8,588	100	Php 8,112	100	Php 476	6

(1) The 2010 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

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[1]	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits[2]	Php 5,062	67	Php 4,922	58	Php 140	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	Php 7,598	100	Php 8,481	100	(Php 883)	(10)

(1) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

(2) *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.

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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 unutilized 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:

			Change	
	2011	**2010**[1]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php 15	Php 20	(Php 5)	(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	Php 112	Php 43	Php 69	160

[1] *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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.

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Adjusted EBITDA

As a result of the foregoing, our BPO business adjusted 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[1]	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php 1,843	Php 1,229	Php 614	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	Php 1,998	Php 1,371	Php 627	46

(1) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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.

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Adjusted EBITDA

As a result of the foregoing, adjusted 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[1]	%	2009[1]	%	Change Amount	%
			(in millions)			
Wireless	Php 105,381	67	Php 108,367	67	(Php 2,986)	(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	Php 158,387	100	Php 162,023	100	(Php 3,636)	(2)

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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[1]	%	2009[1]	%	Change Amount	%

			(in millions)			
Wireless	Php 59,807	58	Php 63,275	61	(Php 3,468)	(5)
Fixed line	50,243	49	49,713	48	530	1
BPO	8,481	8	8,282	8	199	2
Others	19				19	100
Inter-segment transactions	(15,719)	(15)	(17,129)	(17)	1,410	(8)
Consolidated	Php 102,831	100	Php 104,141	100	(Php 1,310)	(1)

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the implementation of the reorganization of our business segments, as discussed in the Development Activities (2009-2011) Business Reorganization section.*

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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:

					Change	
	2010[1]	**%**	**2009**[1]	**%**	**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)

(1) *The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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:

					Change
	2010[1]	**%**	**2009**[1]	**%**	

					Amount	%
			(in millions)			
Wireless	Php 34,025	85	Php 31,823	79	Php 2,202	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	Php 40,259	100	Php 40,095	100	Php 164	

[1] *The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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Adjusted EBITDA

Our consolidated adjusted 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 adjusted EBITDA for the years ended December 31, 2010 and 2009 by business segment:

	2010[(1)]	%	2009[(1)]	%	Change Amount	%
			(in millions)			
Wireless	Php 58,964	70	Php 59,411	69	(Php 447)	(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	Php 83,717	100	Php 86,194	100	(Php 2,477)	(3)

(1) *The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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[(1)]	%	2009[(1)]	%	Change Amount	%
			(in millions)			
Wireless	Php 33,352	79	Php 31,715	77	Php 1,637	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	Php 42,028	100	Php 41,138	100	Php 890	2

(1) *The 2010 and 2009 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

A reconciliation of our consolidated adjusted 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 attributable to common equity holders of PLDT are presented in *Note 4 Operating Segment Information* to the accompanying consolidated financial statements in Item 18.

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[1]	%	2009[1]	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php 95,520	91	Php 98,145	90	(Php 2,625)	(3)
Wireless broadband, satellite and others						
Wireless broadband	6,287	6	5,384	5	903	17
Satellite and others	2,217	2	3,143	3	(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	Php 105,381	100	Php 108,367	100	(Php 2,986)	(3)

[1] *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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[(1)]	2009[(1)]	Increase (Decrease) Amount	%
		(in millions)		
Cellular service revenues	Php 95,520	Php 98,145	(Php 2,625)	(3)
By service type	*92,914*	*95,673*	*(2,759)*	*(3)*
Prepaid	84,385	86,625	(2,240)	(3)
Postpaid	8,529	9,048	(519)	(6)
By component	*92,914*	*95,673*	*(2,759)*	*(3)*
Voice	45,678	43,642	2,036	5
Data	47,236	52,031	(4,795)	(9)
Others[(2)]	*2,606*	*2,472*	*134*	*5*

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

(2) *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
Smart Prepaid	*25,293,443*	*23,762,814*	*1,530,629*	*6*
Talk N Text	*18,967,381*	*17,050,713*	*1,916,668*	*11*
Red Mobile	*953,609*	*79,571*	*874,038*	*1,098*
Postpaid	421,575	435,543	(13,968)	(3)
Smart	*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
Inbound	*1,437*	*1,495*	*(58)*	*(4)*
Outbound	*22,350*	*11,876*	*10,474*	*88*
International	3,026	2,934	92	3
Inbound	*2,817*	*2,738*	*79*	*3*
Outbound	*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
Inbound	*8,058*	*8,289*	*(231)*	*(3)*
Outbound	*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
Inbound	*211*	*136*	*75*	*55*
Outbound	*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.

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

	2010[1]	2009[1]	Increase (Decrease) Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php 5,203	Php 5,095	Php 108	2
Outbound	22,807	19,840	2,967	15
	28,010	24,935	3,075	12
International				
Inbound	14,738	15,316	(578)	(4)
Outbound	2,930	3,391	(461)	(14)
	17,668	18,707	(1,039)	(6)
Total	Php 45,678	Php 43,642	Php 2,036	5

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

Domestic voice service revenues increased by Php3,075 million, or 12%, to Php28,010 million in 2010 from Php24,395 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.

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

	2010[1]	2009[1]	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php 41,070	Php 45,903	(Php 4,833)	(11)
Bucket-Priced/Unlimited	*23,836*	*26,797*	*(2,961)*	*(11)*
Standard	*17,234*	*19,106*	*(1,872)*	*(10)*
International	3,534	3,625	(91)	(3)
	44,604	49,528	(4,924)	(10)
Value-added services				
Internet-based[2]	858	526	332	63
MMS-based[3]	568	885	(317)	(36)
SMS-based[4]	684	648	36	6
Pasa Load[5]	483	413	70	17
	2,593	2,472	121	5
Financial services	39	31	8	26
Total	Php 47,236	Php 52,031	(Php 4,795)	(9)

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

(2) *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.*

(3) *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.*

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

(5) *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.

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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)
Smart Prepaid	*1,530,629*	*3,261,197*	*(1,730,568)*	*(53)*
Talk N Text	*1,916,668*	*2,742,220*	*(825,552)*	*(30)*
Red Mobile	*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
Smart Prepaid	*1,271,132*	*730,346*	*(588,862)*	*118,013*	*419,821*	*523,496*	*644,932*	*1,672,948*
Talk N Text	*394,984*	*562,375*	*128,786*	*830,523*	*1,256,907*	*1,019,162*	*(32,419)*	*498,570*
Red Mobile	*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.

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

	Gross[1]		Decrease		Net[2]		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Prepaid	Php 220	Php 261	(Php 41)	(16)	Php 193	Php 230	(Php 37)	(16)
Talk N Text	139	161	(22)	(14)	122	140	(18)	(13)
Red Mobile	11	20	(9)	(45)	9	15	(6)	(40)
Prepaid Blended[3]	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[4]	198	235	(37)	(16)	175	209	(34)	(16)

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

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, 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 the Presentation of Financial Information section.*

(3) *The average monthly ARPU of Smart Prepaid, Talk N Text and Red Mobile.*

(4) *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 also 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[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
2010								
First Quarter	Php 232	Php 204	Php 140	Php 122	Php 11	Php 9	Php 1,686	Php 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
2009								
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

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

(2) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2010 and 2009 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.*

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 of 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[1]	%	2009[1]	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php 13,243	22	Php 13,237	21	Php 6	
Interconnection costs	10,194	17	10,843	17	(649)	(6)
Rent	9,038	15	10,553	17	(1,515)	(14)
Compensation and employee benefits[1]	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)

Total	Php 59,807	100	Php 63,275	100	(Php 3,468)	(5)

(1) *The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section and the transfer of PCEV from Wireless to Others business segment, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

(2) *Includes salaries and employee benefits, LTIP, pension and MRP costs*

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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.

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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[1]	2009[1]	Change Amount	%
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains net	Php 888	Php 516	Php 372	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	(Php 136)	(Php 813)	Php 677	(83)

(1) *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 4. Information on the Company Development Activities (2009-2011) Business Reorganization .*

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.

Adjusted EBITDA

As a result of the foregoing, our wireless business adjusted 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.

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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(1)	%	2009(1)	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php 15,342	25	Php 15,681	25	(Php 339)	(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	36	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
Total Fixed Line Revenues	Php 60,158	100	Php 61,930	100	(Php 1,772)	(3)

(1) The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section and the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

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 Php1,864 million, or 3%, to Php59,125 million in 2010 from Php60,989 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 miscellaneous, and 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(1)	2009(1)	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,342	Php 15,681	(Php 339)	(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

(1) The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.

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.

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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:

			Decrease	
	2010[(1)]	**2009[(1)]**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php 11,112	Php 11,581	(Php 469)	(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		

(1) The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information section.

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.

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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(1)	2009(1)	Decrease Amount	%
Total national long distance service revenues (in millions)	Php 6,487	Php 7,853	(Php 1,366)	(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 the Presentation of Financial Information section.

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(1)	2009(1)	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php 22,785	Php 22,697	Php 88	
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	813	85	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 change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

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 37% 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™ 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 Php85 million, or 10%, to Php898 million in 2010 from Php813 million in 2010 mainly due to higher co-location and managed services. The percentage contribution of Vitro™ 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 accounted for 6% and 5% in 2010 and 2009, respectively.

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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:

					Increase (Decrease)	
	2010[1]	**%**	**2009[1]**	**%**	**Amount**	**%**
			(in millions)			
Compensation and employee benefits[2]	Php 12,770	25	Php 11,609	24	Php 1,161	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	Php 50,243	100	Php 49,713	100	Php 530	1

(1) The 2010 and 2009 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the Presentation of Financial Information , section and the inclusion of the ePLDT Group in our fixed line business, as discussed in Item 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

(2) 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 18.

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.

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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(1)	2009(1)	Change Amount	%
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains net	Php 985	Php 509	Php 476	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	(Php 2,694)	(Php 3,373)	Php 679	(20)

(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 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

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

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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.

Adjusted EBITDA

As a result of the foregoing, our fixed line business adjusted 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:

					Increase (Decrease)	
	2010[1]	**%**	**2009**[1]	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php 5,289	65	Php 5,215	61	Php74	1
Customer relationship management	2,823	35	3,319	39	(496)	(15)
Total BPO Revenues	Php 8,112	100	Php 8,534	100	(Php422)	(5)

(1)

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 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

Knowledge Processing Solutions

Our knowledge processing solutions business operates 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

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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

Our customer relationship management business operates 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[(1)]	**%**	**2009**[(1)]	**%**	**Increase (Decrease) Amount**	**%**
			(in millions)			
Compensation and employee benefits[(2)]	Php 4,922	58	Php 5,446	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	5	448	5	(52)	(12)
Communication, training and travel	335	4	389	5	(54)	(14)
Amortization of intangible assets	225	2	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)
Total	Php 8,481	100	Php 8,282	100	Php199	2

(1) 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 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

(2) 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 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 for the years ended December 31, 2010 and 2009:

	2010[(1)]	**2009[(1)]**	**Change Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php 20	Php 18	Php 2	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	Php 43	(Php 498)	Php 541	109

(1) 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 4. Information on the Company Development Activities (2009-2011) Business Reorganization.

Our BPO business other income amounted to Php43 million in 2010, an increase 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.

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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.

Adjusted EBITDA

As a result of the foregoing, our BPO business adjusted 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:

			Change	
	2010(1)	**2009(1)**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php 1,229	Php 398	Php 831	209
Interest income	147	504	(357)	(71)
Gains on derivative transactions		1,170	(1,170)	(100)
Foreign exchange losses net	(23)	(129)	106	(82)
Financing costs	(2)	(8)	6	(75)
Others	20	27	(7)	(26)
Total	Php 1,371	Php 1,962	(Php 591)	(30)

(1) 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 4. Information on the Company Development Activities (2009-2011) Business Reorganization .

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 gain on derivative transactions 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.

Adjusted EBITDA

As a result of the foregoing, adjusted 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. 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. 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 and as part of its network modernization program. 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. 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;

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(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)	
Cash Flows			
Net cash provided by operating activities	Php 79,209	Php 77,260	Php 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
Net increase (decrease) in cash and cash equivalents	9,379	(1,641)	4,635

	2011	**2010**
	(in millions)	
Capitalization		
Interest-bearing financial liabilities:		
Long-term portion of financial liabilities:		
Long-term debt	Php 91,273	Php 75,879
Obligations under finance lease	7	9
	91,280	75,888
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
	26,009	13,801
Total interest-bearing financial liabilities	117,289	89,689
Total equity attributable to equity holders of PLDT	151,833	97,069
	Php 269,122	Php 186,758
Other Selected Financial Data		
Total assets	Php 395,646	Php 277,815
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 availment 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 availment 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 was 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.

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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 4. Information on the Company Development Activities (2009-2011) and *Note 10 Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements in Item 18 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 and Acquisition of Non-Controlling Interests* to the accompanying consolidated financial statements in Item 18 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 availment 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 was drawn on March 5, 2012 and 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$4.5 million 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$46 million was drawn on March 14, 2012 and 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 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 Php18,686 million. There are no outstanding Digitel loans covered by PLDT guarantees as at December 31, 2011.

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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 Digitel 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 18.

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 18 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:

	Date			Amount	
Earnings	**Approved**	**Record**	**Payable**	**Per share**	**Total Declared**
			(in millions)		
2010					
Common					
Regular Dividend	August 3, 2010	August 19, 2010	September 21, 2010	Php 78.00	Php 14,570
	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(1)	Various	Various	Various		49
					458
					Php 41,921
2011					
Common					

Regular Dividend	August 2, 2011	August 31, 2011	September 27, 2011	78.00	Php 14,567
	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[1]	Various	Various	Various		49
					457
					Php 39,035

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

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See Item 3 Key Information Dividends Declared and Dividends Paid and *Note 19 Equity* to the accompanying consolidated financial statements in Item 18 for further information on 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	BB+	Positive
	ASEAN regional scale	axBBB+	
Moody s Investor Service, or Moody s	Foreign Currency Senior Unsecured Debt Rating	Baaa3	Stable
	Local Currency Issuer Rating	Baa2	Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating	BBB-	Stable
	Long-term Local Currency Issuer Default Rating	A-	Stable
	National Long-term Rating	AAA(ph1)	Stable
	Foreign senior unsecured rating	BBB-	

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.

Equity Financing

Through our 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.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained Board of Directors approval for 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. 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. The effect of the acquisition of shares of PLDT s common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for 2011 and 2010. See Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchaser and *Note 8 Earnings Per Common Share, Note 19 Equity* and *Note 27 Financial Assets and Liabilities* to the accompanying consolidated financial statements in Item 18 for further details.

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.

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Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table shows our consolidated contractual undiscounted obligations outstanding as at December 31, 2011:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years** (in millions)	**3-5 years**	**More than 5 years**
December 31, 2011					
Debt[1]:	Php *142,271*	Php *16,378*	Php *62,213*	Php *39,476*	Php *24,204*
Principal	119,410	15,348	48,141	33,971	21,950
Interest	22,861	1,030	14,072	5,505	2,254
Lease obligations:	*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[2]	*674*	*279*	*263*	*132*	
Other obligations:	*91,828*	*66,223*	*21,343*	*705*	*3,557*
Derivative financial liabilities[3]:	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	20,317	4	2,084
Suppliers and contractors	45,604	25,476	20,128		
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			
Total contractual obligations	**Php 252,599**	**Php 89,232**	**Php 89,143**	**Php 43,311**	**Php 30,913**

(1) *Consist of notes payable and long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*
(2) *Based on the Amended ATPA with AIL.*
(3) *Gross liabilities before any offsetting application.*

For a detailed 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 18.

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.

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 was 4.8% as compared with 3.8% in 2010. Moving forward, we currently expect inflation to increase, which may have an adverse impact on our operations.

See Item 11. Quantitative and Qualitative Disclosures about Market Risks Foreign Currency Exchange Risk for a description of the impact of foreign currency fluctuations on us.

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Item 6. Directors, Senior Management and Employees
Directors, Key Officers and Advisors

The name, age and period of service, of each of the current directors, including independent directors, of PLDT are as follows:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	65	November 24, 1998 to present
Napoleon L. Nazareno	62	November 24, 1998 to present
James L. Go(1)	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(2)	59	March 28, 2006 to July 5, 2011
Rev. Fr. Bienvenido F. Nebres, S.J.(3)	71	November 24, 1998 to present
Takashi Ooi(4)	50	November 6, 2007 to December 6, 2011
Juan B. Santos	73	January 25, 2011 to present
Oscar S. Reyes(5)	65	April 5, 2005 to November 3, 2011
Setsuya Kimura		