PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
March 27, 2013
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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, 2012**

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.

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, 2012:
216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
36,002,970 shares of Non-voting Preferred Stock, Par Value Ten Philippine Pesos Per Share
150,000,000 shares of Voting Preferred Stock, Par Value One Philippine Peso 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 audited 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, conversion 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 Php41.08 to US$1.00 on December 31, 2012. On March 22, 2013, the volume weighted average exchange rate quoted was Php40.82 to US$1.00.

In this annual report, each reference to:

3rd Brand means 3rd Brand Pte. Ltd., an 85.0%-owned subsidiary of SHPL;

ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, a wholly-owned subsidiary of PLDT;

ADRs means American Depositary Receipts;

ADSs means 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. and subsidiaries, or AGS Group, a 99.2%-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;

BPO means business process outsourcing;

BSP means Bangko Sentral ng Pilipinas;

BTS means base transceiver station;

CBA means collective bargaining agreement;

CEO means chief executive officer;

CG means Corporate Governance;

CG Manual means PLDT Manual on Corporate Governance;

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CGO means Corporate Governance Office;

Chikka means Chikka Holdings Limited, a wholly-owned subsidiary of Smart;

ClarkTel means PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT;

CMTS means cellular mobile telephone system;

Code of Ethics means PLDT s Code of Business Conduct and Ethics;

CPCN means Certificate of Public Convenience and Necessity;

CSRs means 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 99.5%-owned subsidiary of PLDT;

DITSI means Digitel Information Technology Services, Inc., a wholly-owned subsidiary of Digitel;

DMPI means Digitel Mobile Philippines, Inc., a wholly-owned subsidiary of Digitel, that owns the *Sun Cellular* business;

DSL means digital subscriber line;

ECC means the Executive Compensation Committee;

ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;

FECL means Far East Capital Limited, a wholly-owned subsidiary of Smart;

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 Pacific 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;

IPCDSI means IP Converge Data Services, Inc., a wholly-owned subsidiary of ePLDT;

ISP means internet service providers;

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Laguna Medical means Laguna Medical Systems, Inc., a wholly-owned subsidiary of SPi;

Laserwords means Laserwords Private Ltd., a wholly-owned subsidiary of SPi;

LEC means local exchange carrier;

LTIP means long-term incentive plan;

MIC means Mabuhay Investment Corporation (formerly Mabuhay Satellite Corporation), a 67.0%-owned subsidiary of PLDT;

Maratel means PLDT-Maratel, Inc., a 97.8%-owned subsidiary of PLDT;

MediaQuest means MediaQuest Holdings, Inc., a wholly-owned entity of the PLDT Beneficial Trust Fund;

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., a 99.8%-owned subsidiary of Smart;

PDRs means Philippine Depository Receipts;

PDSI means Primeworld Digital Systems, Inc., a wholly-owned subsidiary of Smart;

PFRS means Philippine Financial Reporting Standards;

PGCI means Philippine Global Communications, Inc.;

PGNL means Pilipinas Global Network Limited, a majority-owned subsidiary of PLDT;

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.;

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PTIC means Philippine Telecommunications Investment Corporation;

SBI means SmartBroadband, Inc., a wholly-owned subsidiary of Smart;

SHPL means Smarthub Pte. Ltd., a wholly-owned subsidiary of Smart;

SGIL means SPi Global Investment Ltd., a wholly-owned subsidiary of SPi;

SGP means SmartConnect Global Pte. Ltd., a wholly-owned subsidiary of SHPL;

SHI means Smarthub, Inc., a wholly-owned subsidiary of Smart;

SIM means subscriber identification module;

Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;

SMHC means Smart Money Holdings Corporation, a wholly-owned subsidiary of Smart;

SMI means Smart Money, Inc., a wholly-owned subsidiary of SMHC;

SMS means short messaging service;

SNMI means Smart-NTT Multimedia, Inc., a wholly-owned subsidiary of PLDT;

SPi means SPi Technologies, Inc., a wholly-owned subsidiary of SPi Global;

SPi CRM means SPi CRM Inc., a wholly-owned subsidiary of SPi Global;

SPi Group means SPi and its subsidiaries;

SPi Global means SPi Global Holdings, Inc., a wholly-owned subsidiary of PLDT;

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.

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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.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2012 and 2011 and for the three years in the period ended December 31, 2012, included in Item 18 of 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.

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. We adjusted the comparative consolidated income statements for the years ended December 31, 2008 to 2011 to present the results of operations of our BPO business as discontinued operations. See Item 4. Information on the Company Recent Developments , *Note 2 Summary of Significant Accounting Policies Discontinued Operations* and *Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Held-for-Sale and Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18 for a further discussion of the classification of the BPO segment as an asset held-for-sale.

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.

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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 (expenses). 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 as an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to any other measure determined in accordance with 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.

A reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2012, 2011 and 2010 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited 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 (excluding hedge costs), asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. 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 nonrecurring 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, 2012, 2011 and 2010 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18.

Selected Financial Data

The selected consolidated financial information below as at December 31, 2012 and 2011 and for the financial years ended December 31, 2012, 2011 and 2010, 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 under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been prepared and presented in conformity with IFRS.

	2012[1]	2012[2]	2011[3]	2010	2009	2008
	(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[4]:						
Revenues	US$ 4,202	Php172,626	Php156,603	Php158,387	Php162,023	Php160,492
Service revenues	4,122	169,331	153,958	156,170	159,597	157,528
Continuing operations	3,899	160,189	145,834	148,597	151,706	149,334
Discontinued operations	223	9,142	8,124	7,573	7,891	8,194
Non-service revenues continuing operations	80	3,295	2,645	2,217	2,426	2,964
Expenses[3]	3,218	132,185	113,382	102,831	104,141	100,441
Continuing operations	3,019	124,023	106,102	94,676	96,171	90,993
Discontinued operations	199	8,162	7,280	8,155	7,970	9,448
Net income (loss) for the year	862	35,401	31,637	40,259	40,095	34,976
Continuing operations	846	34,741	30,806	40,744	40,676	36,893
Discontinued operations	16	660	831	(485)	(581)	(1,917)
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	3.99	163.86	163.24	212.85	210.38	179.96
Diluted	3.99	163.86	163.10	212.85	210.36	179.95
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	3.91	160.80	158.90	215.45	213.49	190.15
Diluted	3.91	160.80	158.77	215.45	213.47	190.14
Balance Sheets Data[5]:						
Cash and cash equivalents	905	37,161	46,057	36,678	38,319	33,684
Total assets	9,992	410,468	399,822	277,815	280,148	252,558
Total long-term debt net of current portion	2,503	102,811	91,273	75,879	86,066	58,899
Total debt[6]	2,819	115,792	117,275	89,646	98,729	73,911
Total liabilities	6,359	261,226	247,603	180,430	181,023	145,589
Total equity attributable to equity holders of PLDT	3,629	149,060	151,833	97,069	98,575	105,531
Weighted average number of common shares for the year (in thousands)		216,055	191,369	186,790	186,916	188,163
Other Data:						
Depreciation and amortization	799	32,820	27,957	26,277	25,607	24,709
Continuing operations	788	32,354	27,539	25,881	25,159	24,151
Discontinued operations	11	466	418	396	448	558
Ratio of earnings to fixed charges[7]	5.3x	5.3x	6.0x	7.0x	7.4x	7.4x
Net cash provided by operating activities	1,956	80,370	79,209	77,260	74,386	78,302
Net cash used in investing activities	951	39,058	29,712	23,283	49,132	17,014
Net cash used in financing activities	1,184	48,628	40,204	55,322	20,293	45,464
Dividends declared to common shareholders	899	36,946	41,460	40,909	38,758	36,578
Dividends declared per common share	4.16	171.00	222.00	219.00	207.00	194.00

(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, 2012, has been converted into U.S. dollars at the exchange rate of Php41.08 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2012. This conversion 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 full year 2012.*

(3) *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.*

(4) *The 2008 to 2011 results have been restated to reflect the discontinued operations of the BPO, segment. See Presentation of Financial Information section, Item 4. Information on the Company Recent Developments , Note 2 Summary of Significant Accounting Policies Discontinued Operations and Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Held-for-Sale and Discontinued Operations to the accompanying audited consolidated financial statements in Item 18 for a further discussion of the*

classification of the BPO segment as an asset held-for-sale.

(5) *The December 31, 2011 comparative information was restated to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel.*

(6) *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.*

(7) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for noncontrolling 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 noncontrolling 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, 2012 and 2011:

	December 31, 2012	December 31, 2011
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to II	Php	Php 4,059
Series IV Cumulative Non-convertible Redeemable Preferred Stock	360	360
Voting Preferred Stock	150	
	Php 510	Php 4,419
Common Stock	Php 1,080	Php 1,072

Dividends Declared

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2010, 2011 and 2012:

Earnings	Date Approved	Date Record	Date Payable	Amount Per share (in pesos)	Amount Total Declared (in million)
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	Php 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	13,611
2011	March 6, 2012	March 20, 2012	April 20, 2012	48	10,371
				189	38,549
2012	August 7, 2012	August 31, 2012	September 28, 2012	60	12,964
2012	March 5, 2013	March 19, 2013	April 18, 2013	60	12,963
2012	March 5, 2013	March 19, 2013	April 18, 2013	52	11,235
				172	Php 37,162

Our current dividend policy is to pay out 70% of our core earnings per share taking into consideration the interest of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends up to the 30% balance of our core earnings or share buybacks. We were able to declare dividend payouts of approximately 100% of our core earnings for the six consecutive years from 2007 to 2012. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT s transfer agent in Manila, Philippines, 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.

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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
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
2012		171.00	4.04
Regular Dividend	April 20, 2012	63.00	1.48
Regular Dividend	September 28, 2012	60.00	1.44
Special Dividend	April 20,2012	48.00	1.12

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

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)
2008	Php 47.65	Php 44.71	Php 40.36	Php 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	41.08	42.14	40.86	44.25
2013 (through March 22, 2013)	40.82	40.69	40.57	40.90

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.*

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	Period End	Month Average[(1)]	High[(2)]	Low[(3)]
2012				
September	Php 41.74	Php 41.73	Php 41.45	Php 42.03
October	41.21	41.43	41.21	41.82
November	40.89	41.11	40.88	41.32
December	41.08	41.02	40.86	41.19
2013				
January	40.67	40.71	40.57	40.90
February	40.66	40.67	40.60	40.74
March (through March 22, 2013)	40.82	40.70	40.59	40.82

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, 2012 of Php41.08 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 22, 2013, the exchange rate quoted through the Philippine Dealing System was Php40.82 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.

Risk Factors

You should carefully consider 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 the Digitel Group by PLDT, the number of major players in the industry has been reduced to three major LECs, 8 international gateway facility, or IGF, providers and two 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 telecommunications 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

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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 and DMPI are also continuously innovating their 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. DMPI, on the other hand, strengthened its unlimited plans through improved handset bundle offerings. 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 105%, counting for multiple SIM card ownership, thus the industry may well be considered mature. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer tastes and preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services or otherwise cause Philippine cellular telecommunications industry to stop growing or reduce the rate of its growth, could materially harm our business and prospects.

Our results of operations have been, and may continue to be, adversely affected by competition in, and the introduction of new services, which could put additional pressures on the traditional international and national long distance services.

The international long distance business has historically been one of our major sources of revenue. However, due to competition, the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, and the growing popularity of the so-called over-the-top service providers that offer social networking, instant messaging and VoIP services, revenues generated from our international long distance business have declined in recent years.

Revenues from international long distance services could continue to decline in the future for a variety of reasons, such as:

- increases in competition from other domestic and international telecommunications providers;
- advances in technology;
- the growing popularity of alternative providers offering over-the-top services like social networking, instant messaging, internet telephony, also known as VoIP services; or
- alternative providers of broadband capacity.

The continued high cellular penetration in the Philippines and the prevalence of SMS have negatively impacted our national long distance business in recent years. Moreover, net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries, which have been our predominant source of foreign currency revenues, have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from any possible future declines in the value of the Philippine peso against the U.S. dollar. As a result, we cannot assure you that we will be able to adequately increase our other revenues to make up for any adverse impact of a further decline in our net settlement payments. We cannot assure you that we can generate new revenue streams to fully offset the declines in our traditional fixed line long distance businesses, thus, our revenues and profitability could be materially reduced and our growth and prospects could suffer.

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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. DMPI s CPCN to operate and maintain a nationwide CMTS is 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 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 to give the government, by way of appropriate tax schemes, a share in the profits derived from the business. 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, Section4 (g) of Republic Act, or R.A., No. 7925 makes it the policy of the government to pursue a fair and reasonable interconnection of authorized public network operators and other providers of telecommunications services in order to achieve a viable, efficient, reliable and universal telecommunications services. The executive branch of the government has also exhibited strong interest in enforcing anti-competitive and anti-monopolistic measures with the signing by the President of the Philippines of Executive Order, or E.O., No. 45 on June 9, 2011. E.O. 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. The DOJ s Department Circular No. 11 implementing E.O. No. 45 took effect on March 1, 2013. 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

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Digitel Group, the operator of *Sun Cellular*, one of the two other 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 major 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 provisional authorities 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 operate and charge our customers. Examples of recent regulatory action affecting our business are provided below.

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 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.

On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 directing the reduction of interconnection charges for SMS between two separate networks from Php0.35 to Php0.15 per SMS. The NTC has interpreted this circular to require a reduction in SMS charges charged to end users. Therefore, it initiated administrative cases against the mobile operators for the latter s failure to implement reduced SMS charges.

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, which were revived again during the pendency of PLDT s acquisition of the Digitel Group in 2011. 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.

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%.

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.

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A summary of the existing material regulations on our business is set forth in Item 4. Information on the Company Material Effects of Regulation on our Business . Due to the regulatory power of the NTC, as described 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, 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 Digitel, which is now majority-owned by PLDT, owned 100% 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 the Digitel Group, 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 must 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 (2010-2012) Divestment of CURE.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE s only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum cost recovery amount, or CRA, to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, and advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE s shares of stock to the winning bidder and submitted CURE s audited financial statements as at June 30, 2012 to the NTC. See *Note 2 Summary of Significant Accounting Policies Divestment of CURE* and *Note 13 Business Combinations and Acquisition of Noncontrolling Interests Digitel s Acquisition* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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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 the Digitel Group, 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.

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 transform 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.

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 and as growth slows or reverses in our traditional fixed line and cellular businesses, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. Since 2010, we have made a number of significant acquisitions, investments in businesses within and ancillary to the telecommunications sector, including an investment in shares of Meralco through PCEV in 2010, the acquisition of the Digitel Group in 2011 and an investment in PDRs of MediaQuest, the ultimate parent company of Cignal TV, a direct-to-home pay-TV business, in 2012 and other smaller investments in various businesses. These acquisitions and investments are further discussed in Item 4. Information on the Company Development Activities (2010-2012) . 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.

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 but not limited to:

- 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. To date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, resulted in material impact on our operations or financial condition. However, 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 cybersecurity 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 Php36,396 million and Php31,207 million in 2012 and 2011, respectively. Our 2013 budget for consolidated capital expenditures is approximately Php29 billion, of which approximately Php13 billion is budgeted to be spent by Smart, approximately Php12 billion is budgeted to be spent by PLDT, approximately Php3 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 building out its coverage, leveraging the capabilities of its newly modernized network, expanding its transmission network, increasing international bandwidth capacity and expanding its 3G and wireless broadband networks in order to enhance its data /broadband capabilities. Smart is also enhancing its network and platforms infrastructure and systems to support solutions deployment, campaign analytics and service delivery platform to enable customized and targeted services. Digitel s capital spending is intended principally to finance its mainstream services and integration with the PLDT Group network of its core and transmission network to increase penetration, particularly in provincial areas to achieve greater business benefits from a closely synergized environment.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us, or at all. If we cannot complete our development programs or other capital projects on time due to our failure to obtain the required financing, our growth, results of operations, financial condition and prospects could be materially and adversely affected.

Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations, service our other debt and carry out new financings.

As at December 31, 2012, we had consolidated total indebtedness of Php115,792 million, or US$2,819 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.

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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 45% of our total consolidated debts were denominated in foreign currencies as at December 31, 2012, 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.

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, 2012, approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 38% of our total consolidated indebtedness was unhedged.

A depreciation of the Philippine peso against the U.S. dollar would increase the amount of our U.S. dollar-denominated debt obligations and operating and interest expenses in Philippine peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in Philippine peso terms. Moreover, a depreciation of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign exchange losses, which could materially and adversely affect our results of operations. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed on us by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments, which were designated as non-hedged items.

On the other hand, approximately 27% and 16% 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, affects our cash flow from operations in Philippine peso terms.

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. From 2009 to 2012, the Philippine peso appreciated from Php47.26 as at January 5, 2009 to Php41.08 as at December 31, 2012 and a high of Php40.86 on December 5, 2012. 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;

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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 superior 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.

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 28, 2013, taking into account shares purchased from JG Summit Holdings, or JGSHI, 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 28, 2013, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT s outstanding common stock, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition. See Item 4. 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 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.

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

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Form 20-F for the calendar year ended December 31, 2006, we have been required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management on the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must express an opinion on our internal control over financial reporting based on its audits.

However, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including our failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our business, our reputation, financial condition and results of operations, and the market prices of our common shares and ADSs could decline significantly.

Risks Relating to the Philippines

PLDT s business may be adversely affected by political or social or economic instability in the Philippines.

The Philippines is subject to political, social and economic volatility that, directly or indirectly, could have a material adverse impact on our ability to sustain our business and growth.

For example, in 2012, the then Chief Justice of the Supreme Court of the Philippines was impeached and the proceedings have raised concerns about the judicial system in the country.

The Philippine economy continues to face several long-term challenges, including reliance on energy imports and foreign demand for overseas Filipino workers.

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

PLDT is required to comply with foreign ownership restriction under the Philippine Constitution. At present, PLDT believes it has complied with such restriction through the issuance of 150 million shares of its Voting Preferred Stock to BTFHI. There can be no assurance that further interpretations of such law will not require further actions to procure compliance with foreign ownership restriction under the Philippine Constitution.

Section 11, Article XII of the 1987 Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. On June 28, 2011, the Philippine Supreme Court promulgated a decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the Gamboa Case), where it has ruled that the term capital in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares).

On October 16, 2012, BTFHI, an indirect wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, created pursuant to PLDT s benefit plan, subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT. As a result of the issuance of the shares of Voting Preferred Stock, PLDT s foreign ownership decreased from 58.4% of outstanding common stock as at October 15, 2012 to 34.5% of outstanding voting stocks (common stock and Voting Preferred Stock) as at October 16, 2012. Thus, we believe that as of the date of this report, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution. See Item 8. Financial Information Legal Proceedings Matters Relating to Gamboa Case and Item 10. Additional Information Approval and Issuance of Voting Preferred Shares for further discussion.

However, we cannot assure you that the Philippine SEC or the relevant authorities in the Philippines will view shares of Voting Preferred Stock issued to BTFHI as shares of stock owned by Filipinos entitled to vote in the election of directors for the purpose of determining whether PLDT is in compliance with the 60% to 40% Filipino-alien equity requirement as provided under the Philippine Constitution. As a result, PLDT may be subject to certain sanctions imposed by the Philippine SEC.

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 68% of the total reported fixed line subscribers nationwide as at December 31, 2012. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 68% of total reported cellular subscribers nationwide as at December 31, 2012. 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 Php546,621 million, or US$13,306 million, as at December 31, 2012, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues, including revenues from discontinued operations, of Php172,626 million, or US$4,202 million, and net income attributable to equity holders of PLDT of Php35,454 million, or US$863 million for the year ended December 31, 2012.

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.

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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 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 20% of PLDT s outstanding common stock as at December 31, 2012. 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 and its Philippine affiliates beneficial ownership to approximately 28% of PLDT s outstanding 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. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

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

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI 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 JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. According to public filings, as at February 28, 2013, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO and NTT Communications) owned approximately 8%, 26% and 20% of PLDT s outstanding common shares, respectively. See *Note 13 Business Combinations and Acquisition of Noncontrolling Interests PLDT s Acquisition of Digitel* to the accompanying audited consolidated financial statements in Item 18 for further information.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or BTF, created pursuant to PLDT s benefit plan, subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2012.

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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

Investment in PDRs of MediaQuest

Between June and August of 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Mediascape, Inc., or Mediascape. Mediascape is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Mediascape PDRs confer an economic interest in common shares of Mediascape indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Mediascape. Mediascape operates a direct-to-home, or DTH, Pay-TV business under the brand name CignalTV , which is the largest DTHPay-TV operator in the Philippines with over 440 thousand subscribers as at December 31,2012. As at March 25, 2013, the Mediascape PDRs have not been issued.

On March 5, 2013, PLDT s Board of Directors approved two further investments in additional PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and

- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the Philippine Star, the Philippine Daily Inquirer, and BusinessWorld, three of the leading newspapers in terms of circulation in the Philippines.

On March 14, 2013, ePLDT made a deposit of Php750 million for its investment in Satventures and Hastings PDRs of MediaQuest. As at March 25, 2013, the Satventures PDRs and Hastings PDRs have not been issued.

The PLDT Group s financial investment in PDRs of MediaQuest is part of the PLDT Group s overall strategy of broadening its distribution platforms and increasing the Group s ability to deliver multi-media content to its customers across the Group s broadband and mobile networks.

See *Note 10 Investments in Associates and Joint Ventures and Deposit Deposit for Future PDRs Subscription* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiation with the potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013.

Subsequently, on February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, SPi Global to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business is expected to be completed in April 2013, after satisfaction of agreed closing conditions, including competition law clearance in applicable jurisdictions, third party consents, availability of buyer s debt financing, transfer of certain parcels of land in the Philippines and completion

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of transfer of SPi America Holdings, Inc. to buyer (as a separate transaction). PLDT will own approximately 20% interest in AOGL by reinvesting some of the proceeds from the sale and continue to participate in the growth of the business as a partner of CVC. Upon the completion of the sale, PLDT will be subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which such business is carried on (excluding, among others, activities in the ordinary course of PLDT s business); and (2) an obligation, for a period ranging from six months up to five years, to provide certain transition services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided). In addition, PLDT may be liable for certain damages actually suffered by the buyer arising out of, among others, breach of representation and tax matters. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations and Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Assets Held-for-Sale and Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18 for a further discussion of the classification of the BPO segment as an asset held-for-sale.

Business Overview

As at and for the year ended December 31, 2012, our chief operating decision maker, or our Management Committee, views our business activities in four business units: Wireless, Fixed Line, BPO and Others. See Item 4. Information on the Company Development Activities (2010-2012) Business Reorganization for further information on our development activities. The BPO business unit was classified as disposal group held-for-sale and discontinued operation. See Item 4. Information on the Company Recent Developments Discontinued Operations for further discussion.

Wireless

We provide (1) cellular and (2) wireless broadband, satellite and other services through our wireless business, which contributed about 91% and 9% of our wireless service revenues, respectively, in 2012. 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 was 62% of our total revenues in 2012 and 60% for each of the years 2011 and 2010. Our cellular service revenues was 90% of our total wireless revenues, which include service and non-service revenues, in each of 2012 and 2011, and 91% in 2010.

Our cellular service, which accounted for about 91% of our wireless service revenues for the year ended December 31, 2012, is provided through Smart and DMPI with 69,866,458 total subscribers as at December 31, 2012 representing a combined market share of approximately 68%. In 2012, the combined number of subscribers of Smart, *Red Mobile* and *Sun Cellular* subscribers increased by 6,169,829, or 10%, to 69,866,458. The growth was mainly due to 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 105% as at December 31, 2012, or approximately 34 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%, 90% and 100% of Smart s, *Sun Cellular* and *Red Mobile* subscribers, respectively, as at December 31, 2012 were prepaid service subscribers and subscriber gains in 2012 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 without handset subsidies and reducing 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. Cellular data service revenues were stable year-on-year at Php53,274 million in 2012 increasing from Php47,235 million in 2011, including an increase resulting from the inclusion of DMPI s cellular data revenues by Php6,014 million in 2012.

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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 11,577 cellular/mobile broadband base stations as at December 31, 2012, 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 developed an advanced 3G network that is currently operational in 58 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*. Smart and DMPI have defined a synergy plan whereby certain cellsites will be co-located. When the plan is fully implemented, it is expected that this will lead to generate savings in terms of capex optimization, cost efficiencies and reductions in cost duplications.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country, servicing retail, corporate and small medium enterprise, or SME, clients. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 2,063,794 fixed line subscribers as at December 31, 2012, a decrease of 102,501 from the 2,166,295 fixed line subscribers as at December 31, 2011 mainly due to lower net additions in 2012 compared with 2011. Total revenues from our fixed line was 33% of our total revenues for the year ended December 31, 2012 and 35% for each of the years ended December 31, 2011 and 2010. 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. An increase in our data and other network service revenues in recent years have mitigated such decline to a certain extent. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new data-capable and IP-based networks.

Our 11,100-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 areas not covered by fixed terrestrial transport network. 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 and various regional submarine cable systems in which we have interests.

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

Business Process Outsourcing

We provide knowledge processing solutions through SPi, and its subsidiaries, or SPi Group and customer relationship management through SPi CRM. The BPO segment was 6% of our revenues in 2012 and 5% in each of the years 2011 and 2010.

Others

Others consists primarily of PCEV, an investment holding company which has an interest in Meralco shares through its interest in Beacon s outstanding common stock 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, 2010, 2011 and 2012 and those planned for 2013. See Item 4. Information on the Company Recent Developments Discontinued Operations and Development Activities (2010 to 2012) Divestment of CURE for the discussion of our recent divestitures.

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Organization

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the PLDT Group) as at December 31, 2012 and 2011:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership 2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	100.0		100.0	
SBI and Subsidiary	Philippines	Internet broadband distribution services		100.0		100.0
PDSI	Philippines	Internet broadband distribution services		100.0		100.0
I-Contacts	Philippines	Call center services		100.0		100.0
Wolfpac	Philippines	Mobile applications development and services		100.0		100.0
WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		100.0		100.0
SHI	Philippines	Software development and sale of maintenance and support services		100.0		100.0
SMHC:	Cayman Islands	Investment company		100.0		100.0
SMI	Cayman Islands	Mobile commerce solutions marketing		100.0		100.0
FECL and Subsidiary or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		100.0		100.0
PHC	Philippines	Investment company		100.0		100.0
FHI:	Philippines	Investment company		100.0		100.0
CURE	Philippines	Cellular mobile services		100.0		100.0
Chikka and Subsidiaries or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider		100.0		100.0
SHPL:	Singapore	Investment company		100.0		100.0
SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications		100.0		100.0
3rd Brand	Singapore	Solutions and systems integration services		85.0		85.0
Telesat[a]	Philippines	Satellite communications services	100.0		100.0	
ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	85.0	11.5
MIC[b]	Philippines	Investment company	67.0		67.0	
DMPI	Philippines	Cellular mobile services		99.5		70.2
Fixed Line						
ClarkTel	Philippines	Telecommunications services	100.0		100.0	
SubicTel	Philippines	Telecommunications services	100.0		100.0	
PLDT Global and Subsidiaries or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0		100.0	
SNMI[a]	Philippines	Data and network services	100.0		100.0	
Philcom and Subsidiaries or Philcom Group	Philippines	Telecommunications services	100.0		100.0	
ePLDT[c] :	Philippines	Information and communications infrastructure for internet-based	100.0		100.0	

		services, e-commerce, customer relationship management and information technology, or IT, related services				
IPCDSI[d]	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services		100.0		
AGS and Subsidiaries or AGS Group[e]	Philippines	Internet-based purchasing, IT consulting and professional services		97.1		93.5
ePDS	Philippines	Bills printing and other related value-added services, or VAS		67.0		67.0
netGames[f]	Philippines	Gaming support services		57.5		57.5
Digitel	Philippines	Telecommunications services	99.5		70.2	
DCPL[g]	British Virgin Islands	Telecommunications services		99.5		70.2
DITSI[h]	Philippines	Internet services		99.5		70.2
Maratel	Philippines	Telecommunications services	97.8		97.8	
BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0		75.0	
PGNL and Subsidiaries	British Virgin Islands	International distributor of Filipino channels and content	60.0		60.0	
BPO[i]						
SPi Global:	Philippines	Investment company	100.0		100.0	
SPi and Subsidiaries or SPi Group	Philippines	Knowledge processing solutions		100.0		100.0
SPi CRM	Philippines	Customer relationship management		100.0		100.0
SGIL and Subsidiaries or SGIL Group[j]	British Virgin Islands	General administration, planning and corporate services to its affiliates, subsidiaries and branches		100.0		
Infocom	Philippines	Customer relationship management		99.6		99.6
Others						
PCEV	Philippines	Investment company		99.8		99.5

(a) *Ceased commercial operations.*

(b) *Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC s Articles of Incorporation changing its name from Mabuhay Satellite Corporation to Mabuhay Investments Corporation and its primary purpose from satellite communication to holding company.*

(c) *On June 11, 2012, MySecureSign, or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company.*

(d) *On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.*

(e) *In December 2012, ePLDT acquired an additional 3.6% equity interest in AGS from its minority shareholders for a consideration of Php3 million, thereby increasing ePLDT s ownership in AGS from 93.5% to 97.1%.*

(f) *Ceased commercial operations in January 2013.*

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(g) *Liquidated in January 2013.*

(h) *Approved for liquidation in June 2013.*

(i) *On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. See Discontinued Operations and Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Discontinued Operations.*

(j) *On March 8, 2012, SGIL was incorporated in British Virgin Islands to provide regional support services to SPi Global and Subsidiaries. On July 25, 2012, SGIL through its subsidiary, SPi Global Shared Services Pte. Ltd. was registered with the Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.*

Development Activities (2010-2012)

Business Reorganization

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the 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.

On July 5, 2011, our Board of Directors approved the spin off of SPi and SPi CRM from ePLDT and transferred the ownership of SPi Global to PLDT, and to place both SPi and SPi CRM under SPi Global. Subsequently, the Board of Directors decided to include Infocom in the spin-off. The reorganization was completed on December 6, 2011. See *Note 10 Investments in Associates and Joint Ventures and Deposit* to the accompanying audited 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 acquired 50% equity interest in Beacon on March 30, 2010 and subsequently transferred 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 company and was reclassified from Wireless to Others business segment.

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 Quantium (formerly G3 Worldwide ASPAC), a private limited company, resulting in the increase of ePLDT s equity interest in ePDS from 50% to 67%. See *Note 10 Investment in Associates and Joint Ventures and Deposit* and *Note 13 Business Combinations and Acquisition of Noncontrolling Interests ePLDT s Acquisition of ePDS* to the accompanying audited 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 provided in the APA. The sale generated a net gain of US$2 million, or Php89 million.

The sale of investments in 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.

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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.

On March 8, 2012, SGIL was incorporated in British Virgin Islands to provide regional support services to SPi Global and Subsidiaries. On July 25, 2012, SGIL, through its subsidiary, SPi Global Shared Services Pte. Ltd., was registered with the Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.

PCEV s Investment in Beacon

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 interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Beacon s authorized capital stock of Php5,000 million consists of 3 billion common shares with a par value of Php1 per share and 2 billion preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon s bank creditors.

On March 30, 2010, MPIC subscribed to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash. See Transfer of Meralco Shares to Beacon section below for further information.

PCEV likewise subscribed to 1,156.5 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154.2 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154.2 million and 163.6 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154.2 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

On October 25, 2011, PCEV transferred to Beacon its remaining investment in 68.8 million of Meralco s common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares of the same amount. The transfer of the Meralco shares was implemented by a cross sale through the PSE.

The carrying value of PCEV s investment in Beacon, representing 50% of Beacon s common shares outstanding, was Php20,801 million and Php16,593 million as at December 31, 2012 and 2011, respectively.

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PCEV s Additional Investment in Beacon

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million. Because the sale of Beacon preferred shares was deemed as a transaction between non-related entities, PCEV realized a portion of the deferred gain amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

PLDT s Acquisition of a controlling interest in Digitel from JGSHI

On March 29, 2011, the Board of Directors of PLDT and JGSHI approved the acquisition by PLDT of JGSHI s and certain other seller-parties ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is the 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

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 and Acquisition of Noncontrolling Interests PLDT s Acquisition of Digitel* and *Note 14 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further information on the effect of the Digitel acquisition on PLDT and its businesses.

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 JGSHI. 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.

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 the Digitel shares were delisted and ceased to be tradable on the PSE effective March 26, 2012.

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, February 7, 2012 and May 8, 2012 to convert and exchange certain of the zero coupon securities acquired from JGSHI 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 99.54% of the outstanding capital of Digitel as at December 31, 2012.

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Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

CURE must sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and

Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE s *Red Mobile* trademark to Smart; (b) the transfer of CURE s existing *Red Mobile* subscriber base to Smart; and (c) the sale of CURE s fixed assets to Smart at net book value.

In a letter dated July 26, 2012, Smart informed the NTC that it had complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, its only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum CRA to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE s shares of stock to the winning bidder and submitted CURE s audited financial statements as at June 30, 2012 to the NTC.

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at December 31, 2012 but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

See *Note 2 Summary of Significant Accounting Policies Divestment of CURE* and *Note 13 Business Combinations and Acquisition of Noncontrolling Interests Digitel s Acquisition* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

PCEV s Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV s management to take such steps 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 be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart s tender offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares, or 43.4% of PCEV s noncontrolling shares tendered, thereby increasing Smart s ownership to 99.7% of the outstanding common stock of PCEV at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE for voluntary delisting on March 19, 2012. On April 25, 2012, the PSE approved the petition for voluntary delisting and PCEV s shares were delisted and ceased to be tradable on the PSE effective May 18, 2012.

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Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV s board of directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the par value of PCEV s common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

	Prior to Amendments			After Amendments		
	Authorized Capital	Number of Shares	Par Value	Authorized Capital	Number of Shares	Par Value
Common Stock	Php 12,060,000,000	12,060,000,000	Php 1	Php 12,060,006,000	574,286	Php 21,000
Class I Preferred Stock	240,000,000	120,000,000	2	66,661,000	33,330,500	2
Class II Preferred Stock	500,000,000	500,000,000	1	50,000,000	50,000,000	1
Total Authorized Capital Stock	Php 12,800,000,000			Php 12,176,667,000		

The decrease in authorized capital and amendments to the articles of incorporation were subject to approval of the Philippine SEC, which approval was received on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendments PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

Consequently, from October 8, 2012, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 130 as at December 31, 2012 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart s percentage ownership in PCEV stood at 99.8% as at December 31, 2012.

Corporate Merger of MSSI and ePLDT

In April 2012, the Board of Directors of MSSI and ePLDT approved the plan of merger between MSSI and ePLDT, with ePLDT as the surviving company, in order to realize economies in operation and achieve greater efficiency in the management of their business. The merger was approved by two-thirds vote of MSSI and ePLDT s stockholders on April 13, 2012 and April 27, 2012, respectively. On June 11, 2012, the Philippine SEC approved the plan and articles of merger. The merger has no impact on our consolidated financial statements.

ePLDT s Acquisition of IPCDSI

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSI and advances to IPCDSI for a total adjusted purchase price of Php734 million.

ePLDT s Acquisition of Shares of AGS Minority Stockholders

In December 2012 and January 2013, ePLDT acquired an additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT s ownership in AGS from 93.5% to 99.2%.

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

Strengths

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

Recognized Brands. PLDT, Smart, *Talk N Text* and *Sun Cellular* are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for nearly 85 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative

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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 over 75 million fixed line, cellular and broadband subscribers as at December 31, 2012, 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 62%, fixed line 33% and BPO 5% to our total revenues in 2012. 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 cellular voice and text services have been declining but are somewhat mitigated by the increase in revenues from wireless broadband and mobile internet browsing. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. Revenues from 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 from corporate, SME and consumer data.

Superior 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 have completed a two-year network transformation program that further enhanced the capabilities of our fixed line and wireless networks, allowing us to better leverage this competitive strength to maintain market leadership while achieving higher levels of network efficiency in providing voice and data services. Part of our network transformation program included the continued upgrade of our fixed line network to an all IP-based NGN, the build out of our transmission network to 54,000 kilometers of fiber, the investment in increased international bandwidth capacity, and the expansion of our 3G and wireless broadband networks in order to enhance our data/broadband capabilities. Our network investments include the upgrade of our IT capabilities, including our Operating Support Systems, Business Support Systems and Intelligent Networks, all of which are essential in enabling us to offer more relevant services to our customers.

Innovative Products and Services. We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Money, Smart Load* and *Pasa Load. Smart Load* is an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term pasa means transfer) is a derivative service of *Smart Load* that allows load transfers to other *Smart Prepaid* and *Talk N Text* subscribers.

Strong Strategic Relationships. We have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

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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 provider 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. In 2012, we completed a two-year network transformation program covering our fixed line, cellular and mobile broadband networks, not only to achieve operating and cost efficiencies, and lay the foundation for future technological advances, but primarily to provide superior quality of experience to our customers.

- *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, and other products and services, including content, 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, including data centers and cloud-related services.

- *Maintain a strong financial position and improve shareholder returns.* Following significant improvements in our financial position, we restored the payment of cash dividends to our common shareholders beginning 2005 and were able to declare dividend payouts of approximately 100% of our core earnings for the six consecutive years from 2007 to 2012. 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 media and content.

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 and DMPI to almost 70 million subscribers as at December 31, 2012, approximately 97% of whom are prepaid subscribers, focuses on providing wireless voice communications and 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. See Item 4. Information on the Company Development Activities (2010 to 2012) Divestment of CURE for further discussion.

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The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2012, 2011 and 2010:

	2012[(1)]	2011[(2)]	2010
Systemwide cellular subscriber base	69,866,458	63,696,629	45,636,008
Prepaid	67,611,537	61,792,792	45,214,433
Smart Prepaid	24,827,418	*26,573,137*	*25,293,443*
Talk N Text	28,445,053	*20,467,175*	*18,967,381*
Sun Cellular	*14,105,031*	*13,314,096*	
Red Mobile[(3)]	*234,035*	*1,438,384*	*953,609*
Postpaid	2,254,921	1,903,837	421,575
Smart	683,428	*550,485*	*421,575*
Sun Cellular	*1,571,441*	*1,353,089*	
Red Mobile[(4)]	*52*	*263*	
Growth rate of cellular subscribers			
Prepaid			
Smart Prepaid	*(7%)*	*5%*	*6%*
Talk N Text	*39%*	*8%*	*11%*
Sun Cellular	*6%*	*100%*	
Red Mobile	*(84%)*	*51%*	*1,098%*
Postpaid			
Smart	*24%*	*31%*	*(3%)*
Sun Cellular	*16%*	*100%*	
Red Mobile[(3)]	*(80%)*	*100%*	
Cellular revenues (in millions)	Php 107,359	Php 93,645	Php 95,520
Voice	51,492	43,885	45,678
Data	53,274	47,235	47,236
Others[(4)]	2,593	2,525	2,606
Percentage of cellular revenues to total wireless service revenues	91%	92%	92%
Percentage of cellular revenues to total service revenues	57%	55%	56%

(1) *Includes DMPI s cellular service revenues of Php19,106 million for the full year 2012.*
(2) *Includes DMPI s cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*
(3) *Red Mobile postpaid was launched in March 2011 by CURE.*
(4) *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*. *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. With the acquisition of a majority interest in the Digitel Group on October 26, 2011, we offer prepaid and postpaid services under the brand name *Sun Cellular*.

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

Postpaid subscribers have similar options depending on their monthly subscription plans. Recently, Smart introduced its new postpaid consumable plan, *Smart All-in Plans*, which enable 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.

Among the many popular bucket variants of Smart prepaid is the *SmarTalk Unli Call and Text 25* where subscribers can enjoy unlimited call and text to other Smart, *Talk N Text* and *Sun Cellular* subscribers, plus free 20 all network texts. In addition, for as low as Php10, Smart prepaid subscribers can get 75 all network texts which is valid for one day.

Smart also offers the *Smart Unli Postpaid Plan* which is available in two variants: Unli postpaid 299 which offers unlimited text to any subscriber on the Smart network and Unli postpaid 599 which offers unlimited call and text to any subscriber on the Smart network.

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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* also offers *Call and Text* combo which allows subscribers to send 40 *Sun-to-Sun* SMS and 40 SMS to other networks along with 10 minutes *Sun-to-Sun* voice calls for as low as Php10, valid for one day.

During 2012, *Sun Cellular* also introduced *Sun Trio Loads*, which comes with 200 SMS to *Sun*, *Smart* and *Talk N Text*, 10 minutes *Sun-to-Sun* calls, 3 minutes of calls to *Sun, Smart and Talk N Text* bundled with 30 minutes of mobile internet for as low as Php20, valid for one day. Moreover, *Sun Cellular* launched *Sun BlackBerry All-Day* unlimited services which comes with unlimited mobile internet, unlimited social networking, unlimited instant messaging, unlimited BlackBerry browsing and unlimited BlackBerry Messenger for only Php50 per day.

Sun Cellular postpaid plans offer a variety of services to cater to the emerging needs of the subscribers and provide innovative services at affordable prices. During 2012, *Sun Cellular* launched *Sundroid Rush Plans* starting from Php600 per month that comes with a free Android handset and tablet where subscribers can enjoy unlimited *Sun Calls and Texts,* 350 free texts to other networks and Php250 consumable that can be used for mobile internet and calls to other networks. *Sun Cellular* also offered IDD plans which allows subscribers to make international calls and send SMS to selected countries for as low as Php2 per minute of voice call or per SMS. The IDD Plans also come with a free Android handset along with free calls and SMS, depending on the plan.

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 Php51,492 million, Php43,885 million and Php45,678 million, or 48%, 47% and 48% of cellular service revenues in 2012, 2011 and 2010, respectively. Local calls continue to dominate outbound traffic constituting 90% of all our cellular minutes. Domestic inbound and outbound calls totaled 50,039 million minutes in 2012, an increase of 8,932 million minutes, or 22%, as compared with 41,107 million minutes in 2011, due to the inclusion of DMPI s domestic voice traffic for 2012. International inbound and outbound calls totaled 3,433 million minutes in 2012, an increase of 348 million minutes, or 11%, as compared with 3,085 million minutes in 2011, mainly due to the inclusion of DMPI s international call traffic in 2012. The ratio of inbound-to-outbound international long distance minutes was 7.6:1 for 2012.

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

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.

Due to the inclusion of DMPI s full year revenues in 2012, our cellular revenues from this service increased by Php4,651 million, or 11%, to Php48,359 million in 2012 from Php43,708 million in 2011, wherein Digitel s results included were only from October 26, 2011 to December 31, 2011. The resulting increase in DMPI s text messaging revenue contribution of Php5,386 million was partly offset by lower text messaging revenues from Smart mainly due to NTC-mandated decrease in SMS interconnection charges. In 2012, Smart s and DMPI s text messaging system handled 43,920 million outbound messages on standard SMS services and 464,711 million messages generated by bucket-priced text services.

In 2012 and 2011, approximately 50% of our cellular revenues were derived from data usage mainly due to VAS revenues and the inclusion of DMPI s full year revenues in 2012, partially offset by lower text messaging revenues from Smart.

Smart and DMPI offer the following VAS:

- *internet-based* includes revenues from web-based services such as mobile internet browsing and video streaming, net of allocated discounts and content provider costs;

- *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 (three Smart-to-Smart texts plus Php1 air time) from Smart which will be deducted upon their next top-up;

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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* and *Plan3000*.

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 3G network services while upgrading our network to Long-Term Evolution, or LTE 4G, in anticipation of 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. On April 30, 2012, Wolfpac transferred all of its clients under various agreements, access codes with all the rights, interests and obligations, customer receivables, and property and equipment to Chikka.

Chikka

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

Rates

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

Smart Prepaid and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of 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 *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 32% of our cellular service revenues in 2012.

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.

In 2012, *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. For example, the Php100 denomination is valid for five days and comes with 300 free texts to other networks. There are also variants with longer validity periods and more free inclusions: Php150 provides *Sun Call & Text Unlimited* for 7 days with 500 free texts to other networks and includes Php25 regular load, while Php450 is valid for 30 days, includes Php50 regular load and 800 free texts to other networks. Recently, *Sun Cellular* launched *Sun Power Text Unlimited 200* which gives subscribers 30 days of unlimited Sun texts, four hours of *Sun-to-Sun* calls and 500 texts to other networks.

Smart offers *All In*, *Unli Voice and Text*, and *Unli Data* postpaid plans with monthly service fees ranging from Php299 to Php3,000 for *Smart Postpaid* and from Php3,500 to Php8,000 for *Smart Infinity* plans. These plans are allocated free calls, texts and data, and different rates in excess of allocation, depending on the monthly plan. Monthly service fee plans are applicable only to local calls, text messages and data browsing, including 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 likewise charged at Php6.50 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 28 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 an 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, through Chikka, 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 Php5.00 to Php50.00.

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 94 all exclusive regional distributors, 82 key account dealers, 60 of which are exclusive, including DMPI s 74 exclusive regional distributors and 46 exclusive key account dealers. 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. 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 1.4 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 one 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. *Sun Cellular* also offers over-the-air reloads through Sun s *Xpress Load*.

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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 Php37 to Php450 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 14%, respectively for Smart, and 10% and 14%, respectively for *Sun Cellular*. Air time cards cannot be returned or refunded and normally expire within 14 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, satellite and other services through SBI, DMPI 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 *SmartBro* 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 *SmartBro* service through the following technologies: 3G high-speed packet access, or HSPA, 4G HSPA+, LTE, broadband-enabled base stations and WiMax. As at December 31, 2012, we had 1,726,894 subscribers, an increase of 110,541 subscribers, or 7%, as compared with 1,616,353 subscribers as at December 31, 2011. *SmartBro* aims to strengthen our position in the wireless data service and complements PLDT s *myDSL* service in areas where the latter is not available.

DMPI

Through DMPI, with its *Sun Broadband Wireless* service, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. DMPI s *Sun Broadband Wireless* service offers internet users broadband wireless service with 3.5G HSPA technology on an all-IP network. *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 Android Bundles* which are available under plan bundles *799* and *1,249*, mobile wifi promotions for the transport industries and the *SBW Gadget Bundle* available under *Plans 799* and *999*, which comes with a free tablet and pocket wifi. As at December 31, 2012, DMPI had 356,068 and 276,062 prepaid and postpaid broadband subscribers, 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.

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

Rates

SmarBro, 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 *SmarBro Plug-It,* a wireless modem, and *SmartBro 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. *SmartBro Plug-It* and *SmartBro 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 *SmartBro Plug-It Prepaid* and *SmartBro Pocket Wifi* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based and volume-based charging and longer validity periods.

SmartBro WiMAX service is available in Metropolitan Manila and selected key cities in Visayas and Mindanao. *WiMAX* 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 999 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 Php250 to Php1,399 with speeds of up to 7.2 Mbps.

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

Fixed Line

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

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

Local Exchange Service

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries Philcom and its subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI, Maratel and Digitel. Together, these subsidiaries account for approximately 13% of our consolidated fixed line subscribers.

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The following table summarizes key measures of our local exchange services as at and for the years ended December 31, 2012, 2011 and 2010:

	2012(1)	2011(2)	2010
Number of local exchange line subscribers	2,063,794	2,166,295	1,822,105
Number of fixed line employees	7,546	9,072	7,395
Number of local exchange line subscribers per employee	273	239	246
Total local exchange service revenues (in millions)	Php 16,483	Php 15,734	Php 15,855
Local exchange service revenues as a percentage of total fixed line service revenues	27%	27%	27%
Local exchange service revenues as a percentage of total service revenues	9%	9%	9%

(1) *Includes Digitel s local exchange revenue contribution of Php989 million, subscriber base of 206,631 and employee count of 516 as at and for the full year 2012.*

(2) *Includes Digitel s local exchange revenue contribution of Php178 million, subscriber base of 296,395 and employee count of 1,586 for the period from October 26, 2011 to December 31, 2011.*

Revenues from our local exchange service increased by Php749 million, or 5%, to Php16,483 million in 2012 from Php15,734 million in 2011 primarily due to the increase in Digitel s local exchange service revenue contribution by Php811 million and the increase in postpaid wired and *PLP* lines, partially offset by 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 charges. The percentage contribution of local exchange revenues to our total fixed line service revenues was 27% in each of 2012, 2011 and 2010.

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, 2012. 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 but they can load a minimum amount of Php200 which will expire in a month to have unlimited incoming calls while outbound calls are charged separately depending on the type of call.

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 wireless broadband services bundled with voice namely: Home Bundle 1299 and Internet@Home plans 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 2012, 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.

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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 IGFs. 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, 2012, 2011 and 2010:

	2012[1]	**2011**[2]	**2010**
Total call volumes (in million minutes)	2,150	2,029	1,863
Inbound call volumes (in million minutes)	1,691	1,767	1,653
Outbound call volumes (in million minutes)	459	262	210
Inbound-outbound call ratio	3.7:1	6.7:1	7.9:1
Total international long distance service revenues (in millions)	Php 10,885	Php 11,383	Php 11,275
International long distance service revenues as a percentage of total fixed line service revenues	18%	19%	19%
International long distance service revenues as a percentage of total service revenues	6%	7%	7%

(1) *Includes Digitel s international long distance service revenue contribution of Php688 million and call volumes of 348 million minutes for the full year 2012.*

(2) *Includes Digitel s international long distance service revenue contribution of Php239 million and call volumes of 58 million minutes for the period from October 26, 2011 to December 31, 2011.*

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.

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 products and services such as international prepaid calling cards, virtual 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, 2012, 2011 and 2010:

		Net Settlement	
	2012	**2011**	**2010**
		(in millions)	

Saudi Arabia	US$ 49	US$ 71	US$ 32
United Arab Emirates	27	18	14
United States	19	22	31
Japan	11	11	11
Taiwan	9	12	6
Hongkong	8	8	10
Canada	7	3	3
Malaysia	7	2	4
Qatar	5	7	11
Others	19	23	19
Total	US$ 161	US$ 177	US$ 141

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Rates

The average termination rate for PLDT was approximately US$0.10 per minute in 2010, US$0.095 per minute in 2011 and approximately US$0.09 in 2012.

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 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.

The standard IDD rate of US$0.40 per minute is being offered in all Digitel regular retail plans. To cater to the growing overseas foreign workers market, Digitel launched *Choice Elite* offering outbound IDD rates to top destination countries for as low as US$0.14 per minute and product bundles for Digitel DSL and *SunTel* offering a US$0.10 per minute calling to select country destinations. 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 for different destinations. DGMAX are sold in two denominations of Php100 and Php50 and must be consumed within 30 days and 15 days, respectively, from first use.

National Long Distance Service

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

The following table shows certain information about our national long distance services for the years ended December 31, 2012, 2011 and 2010:

	2012(1)	**2011**(2)	**2010**
Total call volumes (in million minutes)	971	1,126	1,290
Total national long distance service revenues (in millions)	Php 5,272	Php 5,711	Php 6,641
National long distance service revenue as a percentage of total fixed line service revenues	9%	10%	11%
National long distance service revenue as a percentage of total service revenues	3%	3%	4%

(1) *Includes Digitel s national long distance service revenue contribution of Php346 million and call volume of 39 million minutes for the full year 2012.*

(2) *Includes Digitel s national long distance service revenue contribution of Php68 million and call volume of 10 million minutes for the period from October 26, 2011 to December 31, 2011.*

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 increase in Digitel s national long distance service revenue contribution for the year ended December 31, 2012 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.

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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. In recent years, PLDT also simplified its rates for calls terminating to cellular subscribers to a uniform rate of Php14.00 per minute.

In addition, PLDT bundles the free PLDT-to-PLDT calls in some promotions and product/service launchings in order 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 broadband, leased lines and IP-based services. These services are used for broadband internet, and domestic and international private data networking communications.

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2012, 2011 and 2010:

	2012(1)	**2011**(2)	**2010**
Subscriber base:			
Broadband	*903,860*	*859,960*	