

PHILIPPINE LONG DISTANCE TELEPHONE CO

Form 20-F

March 30, 2011

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 20-F**

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

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2010**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

**o 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](mailto:lrchan@pldt.com.ph);**

**Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines**

**(Name, telephone, e-mail and/or facsimile number and address of Company contact person)**

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

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

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

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

None

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

11.375% Notes due 2012

8.350% Notes due 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, 2010:

186,756,438 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

441,887,387 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes  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

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  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 (or 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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

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

---

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT</u></b>	3
<b><u>FORWARD-LOOKING STATEMENTS</u></b>	6
<b><u>PRESENTATION OF FINANCIAL INFORMATION</u></b>	7
<b><u>PART I</u></b>	
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	7
<u>Item 2. Offer Statistics and Expected Timetable</u>	7
<u>Item 3. Key Information</u>	7
<u>Performance Indicators</u>	7
<u>Selected Financial Data</u>	8
<u>Capital Stock</u>	10
<u>Dividends Declared</u>	10
<u>Dividends Paid</u>	11
<u>Exchange Rates</u>	11
<u>Capitalization and Indebtedness</u>	12
<u>Reasons for the Offer and Use of Proceeds</u>	12
<u>Risk Factors</u>	12
<u>Item 4. Information on the Company</u>	22
<u>Overview</u>	22
<u>Historical Background and Development</u>	23
<u>Recent Developments</u>	23
<u>Capital Expenditures and Divestitures</u>	24
<u>Organization</u>	25
<u>Development Activities (2008-2010)</u>	25
<u>Strengths</u>	29
<u>Strategy</u>	30
<u>Business</u>	31
<u>Infrastructure</u>	42
<u>Interconnection Agreements</u>	44
<u>Licenses and Regulation</u>	45
<u>Material Effects of Regulation on our Business</u>	47
<u>Competition</u>	49
<u>Environmental Matters</u>	52
<u>Intellectual Property Rights</u>	52
<u>Properties</u>	52
<u>Item 4A. Unresolved Staff Comments</u>	53
<u>Item 5. Operating and Financial Review and Prospects</u>	53
<u>Overview</u>	53
<u>Management's Financial Review</u>	54
<u>Critical Accounting Policies</u>	55
<u>New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2010</u>	61
<u>Results of Operations</u>	61
<u>Plans and Prospects</u>	103
<u>Liquidity and Capital Resources</u>	103

<u>Impact of Inflation and Changing Prices</u>	109
<u>Item 6. Directors, Senior Management and Employees</u>	110
<u>Directors, Key Officers and Advisors</u>	110
<u>Terms of Office</u>	117
<u>Family Relationships</u>	117
<u>Compensation of Key Management Personnel of the PLDT Group</u>	117
<u>Long-term Incentive Plan</u>	118
<u>Share Ownership</u>	119
<u>Board of Directors Independent Directors</u>	120
<u>Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees</u>	120
<u>Directors and Officers Involvement in Certain Legal Proceedings</u>	122
<u>Employees and Labor Relations</u>	124
<u>Pension and Retirement Benefits</u>	125
<u>Item 7. Major Shareholders and Related Party Transactions</u>	126
<u>Related Party Transactions</u>	127
<u>Item 8. Financial Information</u>	128
<u>Consolidated Financial Statements and Other Financial Information</u>	128
<u>Legal Proceedings</u>	128
<u>Dividend Distribution Policy</u>	129
<u>Item 9. The Offer and Listing</u>	130
<u>Common Capital Stock and Amercian Depository Shares</u>	130
<u>Item 10. Additional Information</u>	130

**Table of Contents**

<u>Articles of Incorporation and By-Laws</u>	130
<u>Material Contracts</u>	135
<u>Exchange Controls and Other Limitations Affecting Securities Holders</u>	135
<u>Taxation</u>	136
<u>Documents on Display</u>	139
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risks</u>	139
<u>Liquidity Risk</u>	140
<u>Foreign Currency Exchange Risk</u>	140
<u>Interest Rate Risk</u>	142
<u>Credit Risk</u>	144
<u>Impairment Assessments</u>	147
<u>Capital Management Risk</u>	148
<u>Item 12. Description of Securities Other than Equity Securities</u>	149
<b><u>PART II</u></b>	150
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	150
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	150
<u>Item 15. Controls and Procedures</u>	150
<u>Item 16A. Audit Committee Financial Expert</u>	150
<u>Item 16B. Code of Business Conduct and Ethics</u>	151
<u>Item 16C. Principal Accountant Fees and Services</u>	157
<u>Item 16D. Exemption from the Listing Standards for Audit Committees</u>	157
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchaser</u>	158
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	158
<u>Item 16G. Corporate Governance</u>	158
<b><u>PART III</u></b>	159
<u>Item 17. Financial Statements</u>	159
<u>Item 18. Financial Statements</u>	160
Item 19. Exhibits	283
EXHIBIT INDEX	285
CERTIFICATION	302
<u>Ex-1.B Amended By-Laws (as amended on August 3, 2010)</u>	
<u>Ex-99.6 Computation of Earnings Per Share</u>	
<u>Ex-99.7 Calculation of Ratio of Earnings to Fixed Charges</u>	
<u>Ex-99.8 Subsidiaries</u>	
<u>Ex-12.1 Section 302 Certification of the Chief Executive Officer</u>	
<u>Ex-12.2 Section 302 Certification of the Chief Financial Officer</u>	
<u>Ex-12.1 Section 906 Certification of the Chief Executive Officer</u>	
<u>Ex-12.2 Section 906 Certification of the Chief Financial Officer</u>	

**Table of Contents**

**CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT**

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

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

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

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US\$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or € are to the lawful currency of the European Union. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php43.81 to US\$1.00 on December 31, 2010. On March 29, 2011, the volume weighted average exchange rate quoted was Php43.53 to US\$1.00.

In this report, each reference to:

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

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

ADRs mean American Depositary Receipts;

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;

ARPU means average revenue per user;

BayanTel means Bayan Telecommunication, Inc.;

BayanTrade means BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), a 93.5%-owned subsidiary of ePLDT;

BCC means Bonifacio Communications Corporation, a 75.0%-owned subsidiary of PLDT;

Beacon means Beacon Electric Asset Holdings, Inc., 50.0%-owned by PCEV;

BIR means Bureau of Internal Revenue;

BOW means Blue Ocean Wireless, a 51.0%-owned subsidiary of SCH;

BPO means business process outsourcing;

BSP means Bangko Sentral ng Pilipinas;

BTS means base transceiver station;

CBA means collective bargaining agreement;

CG Manual means PLDT Manual on Corporate Governance;

CGO means Corporate Governance Office;

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

CMTS means cellular mobile telephone system;



**Table of Contents**

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

CPCN means Certificate of Public Convenience and Necessity;

CSRs mean customer service representatives;

CURE means Connectivity Unlimited Resource Enterprise, Inc., a wholly-owned subsidiary of FHI;

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

DFON means domestic fiber optic network;

Digital Paradise means Digital Paradise, Inc., a 75.0%-owned subsidiary of ePLDT;

Digitel means Digital Telecommunications Philippines, Inc.;

DSL means digital subscriber line;

ECC means the Executive Compensation Committee;

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

First Pacific means First Pacific Company Limited;

First Pacific Group means First Pacific and its affiliates;

FHI means Francom Holdings, Inc., a wholly-owned subsidiary of Smart;

FPHC means First Philippine Holdings Corporation;

FPUC means First Philippine Utilities Corporation;

GAAP means generally accepted accounting principles;

Globe means Globe Telecom, Inc.;

GNC means the Governance and Nomination Committee;

GSM means global system for mobile communications;

HB means House Bill;

I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;

ICT means information and communications technology;

IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;

Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;

IP means internet protocol;

ISP means internet service providers;

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

LEC means local exchange carrier;

Level Up! means Level Up!, Inc., a 57.5%-owned subsidiary of ePLDT;

LTIP means long-term incentive plan;

Mabuhay Satellite means Mabuhay Satellite Corporation, a 67.0%-owned subsidiary of PLDT;

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

Meralco means Manila Electric Company;

**Table of Contents**

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.;

Parlance means Parlance Systems, Inc., merged with SPi CRM and Vocativ on April 8, 2010, wherein SPi CRM is the surviving entity;

PCD means PCD Nominee Corporation;

PCEV means PLDT Communications and Energy Ventures, Inc., (formerly known as Pilipino Telephone Corporation, or Piltel), a 99.5%-owned subsidiary of Smart;

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

PFRS means Philippine Financial Reporting Standards;

PGCI means Philippine Global Communications, Inc.;

PHC means PH Communications Holdings Corporation, a wholly-owned subsidiary of Smart;

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

Philippine SEC means the Philippine Securities and Exchange Commission;

PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;

PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;

PLP means PLDT Landline Plus;

PSE means the Philippine Stock Exchange, Inc.;

PTIC means Philippine Telecommunications Investment Corporation;

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

SCH means SmartConnect Holdings Pte. Ltd., a wholly-owned subsidiary of Smart;

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

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;

**Table of Contents**

SMS means short messaging service;

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

SPi CRM means SPi CRM Inc., (formerly known as ePLDT Ventus, Inc., or Ventus), the surviving entity of a merger with Vocativ and Parlance on April 8, 2010, a wholly-owned subsidiary of ePLDT;

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

SPi Group means SPi and its subsidiaries;

Springfield means Springfield Service Corporation, a wholly-owned subsidiary of SPi;

SRC means the Securities Regulation Code of the Philippines;

SRF means supervision and regulation fees;

SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;

TSC means the Technology Strategy Committee;

TSI means Telecoms Solutions, Inc., a wholly-owned subsidiary of SMHC;

U.S. SEC means the United States Securities and Exchange Commission;

VAS means value-added service;

VAT means value-added tax;

Vocativ means Vocativ Systems, Inc., merged with SPi CRM and Parlance on April 8, 2010, wherein SPi CRM became the surviving entity;

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; and

Wolfpac means Wolfpac Mobile, Inc., a wholly-owned subsidiary of Smart.

**FORWARD-LOOKING STATEMENTS**

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to

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

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

**Table of Contents**

**PRESENTATION OF FINANCIAL INFORMATION**

Our consolidated financial statements as at December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008, included in this annual report on Form 20-F have been prepared in conformity with IFRS. We adopted IFRS effective as at and for the fiscal year ended December 31, 2007 by applying *IFRS 1: First-Time Adoption of International Financial Reporting Standards*. Our consolidated financial statements as at and for the year ended December 31, 2006 were originally prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and were restated in accordance with IFRS for comparative purposes only.

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.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Performance Indicators**

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

*Adjusted EBITDA*

Adjusted EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, provision for (benefit from) income tax and other income. Adjusted EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Adjusted EBITDA is presented also a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present 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 EBITDA as a supplement to financial measures in accordance with IFRS or GAAP in the United States. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with 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, 2010, 2009 and 2008 is presented in Item 5. Operating Financial Review and Prospects Management's Financial Review and Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18.

**Table of Contents**

*Core Income*

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. The core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis of determining the level of dividend payouts to shareholders and basis of granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2010, 2009 and 2008 is presented in Item 5. Operating Financial Review and Prospects Management's Financial Review and Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18.

**Selected Financial Data**

The selected consolidated financial information below as at December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in Item 18 in this annual report. As disclosed above under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2010, 2009, 2008 and 2007 have been prepared and presented in conformity with IFRS and our consolidated financial statements for the year ended December 31, 2006, which were originally prepared in accordance with U.S. GAAP, have been restated in accordance with IFRS for comparative purposes only.



**Table of Contents****Amounts in conformity with IFRS:**

	2010 <sup>(1)</sup>	2010	2009	2008	2007	2006
	(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)					
<b>Statements of Operating Data:</b>						
Revenues	US\$ 3,297	Php 144,459	Php 147,993	Php 145,837	Php 138,704	Php 127,508
Service revenues	3,247	142,242	145,567	142,873	135,478	124,988
Non-service revenues	51	2,217	2,426	2,964	3,226	2,520
Expenses	2,029	88,903	90,111	85,786	83,587	82,003
Net income for the year	919	40,259	40,095	34,976	39,274	32,581
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	4.86	212.85	210.38	179.96	205.84	173.10
Diluted	4.86	212.85	210.36	179.95	204.88	173.01
<b>Balance Sheets Data:</b>						
Cash and cash equivalents	837	36,678	38,319	33,684	17,447	16,870
Total assets	6,341	277,815	280,148	252,558	240,158	241,904
Total long-term debt net of current portion	1,732	75,879	86,066	58,899	53,372	63,769
Total debt <sup>(2)</sup>	2,046	89,646	98,729	73,911	60,640	80,154
Total liabilities	4,118	180,430	181,023	145,589	127,813	139,052
Total equity	2,223	97,385	99,125	106,969	112,345	102,853
Weighted average number of common shares for the year (in thousands)		186,790	186,916	188,163	188,656	184,456
<b>Other Data:</b>						
Depreciation and amortization	600	26,277	25,607	24,709	28,613	31,869
Ratio of earnings to fixed charges <sup>(3)</sup>	7.4x	7.4x	7.7x	8.0x	8.3x	4.6x
Net cash provided by operating activities	1,764	77,260	74,386	78,302	77,418	69,211
Net cash used in investing activities	531	23,283	49,132	17,014	31,319	35,790

Net cash used in financing activities	1,263	55,322	20,293	45,464	44,819	45,900
Dividends declared to common shareholders	934	40,909	38,758	36,578	28,299	14,459
Dividends declared per common share	5.00	219.00	207.00	194.00	150.00	78.00

- (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, 2010, has been translated into U.S. dollars at the exchange rate of Php43.81 to US\$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2010. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.*
- (2) *Total debt represents current portion of long-term debt, long-term debt net of current portion and notes payable.*
- (3) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for non-controlling interests in consolidated subsidiaries or income or loss from equity investees; (b) fixed charges; (c) amortization of capitalized interest; (d) distributed income of equity investees; and (e) share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest; (2) preference security dividend requirements of consolidated subsidiaries; and (3) the non-controlling interests in pre-tax income of subsidiaries that have not incurred fixed charges.*

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

**Table of Contents****Capital Stock**

The following table summarizes PLDT's capital stock issued as at December 31, 2010 and 2009:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions)</b>	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to HH	Php 4,059	Php 4,056
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360	360
	Php 4,419	Php 4,416
Common Stock	Php 947	Php 947

**Dividends Declared**

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2008, 2009 and 2010:

Earnings	Approved	Date		Per share (in pesos)	Amount Total Declared (in million pesos)
		Record	Payable		
2008	August 5, 2008	August 22, 2008	September 22, 2008	70	13,140
2008	March 3, 2009	March 18, 2009	April 21, 2009	70	13,124
2008	March 3, 2009	March 18, 2009	April 21, 2009	60	11,250
				200	37,514
2009	August 4, 2009	August 20, 2009	September 22, 2009	77	14,384
2009	March 2, 2010	March 17, 2010	April 20, 2010	76	14,197
2009	March 2, 2010	March 17, 2010	April 20, 2010	65	12,142
				218	40,723
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	14,570
2010	March 1, 2011	March 16, 2011	April 19, 2011	78	14,567
2010	March 1, 2011	March 16, 2011	April 19, 2011	66	12,326
				222	41,463

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in Note 19 Equity and Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in

Item 18. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries. See Note 19 Equity to the accompanying consolidated financial statements in Item 18. 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 proceeds abroad, net of applicable withholding tax.

**Table of Contents****Dividends Paid**

A summary of dividends paid per share of PLDT's common stock stated in both Philippine peso and U.S. dollars follows:

		<b>In Philippine Peso</b>	<b>In U.S. Dollars</b>
2006		78.00	1.54
2007		150.00	3.26
2008		194.00	4.47
Regular Dividend	April 21, 2008	68.00	1.62
Regular Dividend	September 22, 2008	70.00	1.51
Special Dividend	April 21, 2008	56.00	1.34
2009		207.00	4.30
Regular Dividend	April 21, 2009	70.00	1.45
Regular Dividend	September 22, 2009	77.00	1.62
Special Dividend	April 21, 2009	60.00	1.24
2010		219.00	4.95
Regular Dividend	April 20, 2010	76.00	1.71
Regular Dividend	September 21, 2010	78.00	1.78
Special Dividend	April 20, 2010	65.00	1.46

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

**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 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 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:

	<b>Period End</b>	<b>Year Ended December 31,</b>		
		<b>Average<sup>(1)</sup></b>	<b>High<sup>(2)</sup></b>	<b>Low<sup>(3)</sup></b>
2006	Php49.05	Php51.17	Php49.05	Php53.59
2007	41.41	45.88	41.14	49.16
2008	47.65	44.71	40.36	49.98
2009	46.43	47.82	45.95	49.06
2010	43.81	45.10	42.52	46.98
2011 (through March 29, 2011)	43.53	43.80	43.30	44.59

Source: Philippine Dealing System Reference Rate

<sup>(1)</sup> Calculated by using the average of the exchange rates on the last day of each month during the period.

<sup>(2)</sup> Highest exchange rate for the period.

(3) *Lowest exchange rate for the period.*

	<b>Period End</b>	<b>Average<sup>(1)</sup></b>	<b>Month High<sup>(2)</sup></b>	<b>Low<sup>(3)</sup></b>
2010				
October	Php43.06	Php43.40	Php43.06	Php43.89
November	44.15	43.55	42.52	44.26
December	43.81	43.94	43.65	44.38
2011				
January	44.31	44.20	43.71	44.59
February	43.68	43.67	43.36	44.21
March (through March 29, 2011)	43.53	43.51	43.30	43.95

*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.*

**Table of Contents**

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, 2010 of Php43.81 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 29, 2011, the exchange rate quoted through the Philippine Dealing System was Php43.53 to US\$1.00. The weighted average exchange rate of the Philippine peso to the U.S. dollar for a year used in the succeeding 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 consider carefully all of the information in this annual report, including the risks and uncertainties described below. If any of the following risks actually occurs, it could have a material adverse effect on our business, financial condition or results of operations and the trading price of our ADSs, could decline and you could lose all or part of your investment.*

**Risks Relating to Us**

*We face competition from well-established telecommunications operators and may face competition from new entrants that may adversely affect 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. Including the PLDT Group, there are four major LECs, 11 international gateway facility providers and three major cellular service providers in the country. Many entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support, as well as service innovations and marketing strategies. We cannot assure you that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not cause our cellular and fixed line subscribers to switch to other operators or cause us to increase our marketing expenditures or reduce our rates resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry in the Philippines is based primarily on factors such as network coverage, quality of service, product offerings, and price. Recently, competition has increased as operators sought to develop and maintain revenue market share and to attract new subscribers. Our principal cellular competitors, Globe and Digitel, with its *Sun Cellular* brand, have introduced aggressive marketing campaigns and promotions, such as unlimited voice and SMS offers. In addition, the government may allocate additional frequencies and award additional cellular telecommunications licenses in the future, which could lead to increased competition.

As a result of the competitive environment, Smart has not increased its cellular rates since November 1998. Moreover, the level of competition requires Smart to continuously innovate its products and to conduct promotions, which may affect its cellular revenues and revenue growth. For example, in response to fixed rate or bucket plans for voice and text services launched by its competitors, Smart launched promotions pursuant to which *Smart Buddy* and *Talk N Text* prepaid subscribers had the option to avail themselves of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate.

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 or the increase in capital expenditures required for our continued capacity expansion necessary to accommodate the continued

**Table of Contents**

increases expected in call and text volumes as a result of unlimited voice/text offers will not have a material adverse effect on our financial performance.

***The cellular telecommunications industry may not continue to grow.***

The majority of our total revenues is currently derived from cellular services. As a result, we depend on the continued development and growth of the cellular telecommunications industry. The cellular penetration rate in the Philippines is estimated to have reached about 94%, counting multiple SIM card ownership. The growth of the cellular communications 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 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 could harm our business.

***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 telecommunications sector has been characterized by rapid technological changes. We cannot assure you that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, and we have made significant investments in the roll 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. We have begun upgrading and modernizing our wireless 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 telcos 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, in part, on our ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. 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, could negatively impact our existing businesses and could 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. We cannot assure you that we would be able to adopt or successfully implement new technologies. In addition, there can be no assurance on how emerging and future technological changes will affect our operations or the competitiveness of our services.

***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, while a significant portion of our revenues is denominated in Philippine pesos. Approximately 43% of our total consolidated indebtedness was foreign currency-denominated of which approximately 30% was unhedged as at December 31, 2010.

A depreciation of the Philippine peso against the U.S. dollar increases 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 26% of PLDT Group's consolidated service revenues are either denominated in U.S. dollars and/or are linked to the U.S. dollar. In this respect, an appreciation of the weighted





**Table of Contents**

average exchange rate of the Philippine peso against the U.S. dollar decreases our revenues, and consequently, 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. In 2009, the Philippine peso again appreciated to a high of Php45.95 and closed at Php46.43 as at December 31, 2009 and continued to appreciate to a high of Php42.52 and closed at Php43.81 as at December 31, 2010. We cannot assure you that the Philippine peso will not depreciate and be subjected to significant fluctuations going forward due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;

- global economic and financial trends;

- the volatility of regional currencies, particularly the Japanese yen;

- any interest rate increases by the Federal Reserve Bank of the United States; and

- changes in the value of the U.S. dollar relative to the Philippine peso resulting from either higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and foreign exchange traders including banks covering their short U.S. dollar positions, among others.

***Our results of operations have been, and may continue to be, adversely affected by competition in, and the emergence of new services, which may put additional pressures on, our 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 and the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, revenues generated from our international long distance business have declined in recent years.

We anticipate that revenues from international long distance services will continue to decline in the future, primarily due to:

- increases in competition from other domestic and international telecommunications providers;

- advances in technology;

- alternative providers offering internet telephony, also known as VoIP, and broadband capacity; and

- unauthorized traffic termination and bypass routings by international simple resale operators.

The continued increase in cellular penetration in the Philippines and the prevalence of SMS have negatively impacted our national long distance business in recent years. Although revenues from data and other services have grown significantly in recent years compensating for declines in our traditional fixed line businesses, there can be no assurance that we will be able to generate new revenue streams that may fully offset the declines in our traditional fixed line long distance businesses or that these declines will not materially and adversely affect our financial performance.

Net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries have been our predominant source of foreign currency revenues. However, in U.S. dollar terms, these payments have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from possible future declines in the value of the Philippine peso against the U.S. dollar. 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.



**Table of Contents**

***We may not be successful in our acquisitions of and investments in other companies and businesses, and may therefore be unable to fully implement our business strategy.***

As part of our growth strategy, we may, from time to time, make acquisitions and investments in companies or businesses. The success of our acquisitions and investments depends on a number of factors, including:

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.

***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, 2010, we had consolidated total indebtedness of Php89,646 million (US\$2,046 million), and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity attributable to equity holders of PLDT) of 0.9x. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios, and other financial tests, calculated on the basis of PFRS on a consolidated and non-consolidated basis, and limit our ability to incur indebtedness. For a description of some of these covenants, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financing Activities Debt Covenants.

Our indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, they could require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing 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 43% of our total consolidated debts were denominated in foreign currencies as at December 31, 2010, 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 be unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing could result in a declaration of default and acceleration of maturities of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these

## **Table of Contents**

measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness.

***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 will have priority claims over our subsidiaries' assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness we hold.

We may have difficulty meeting 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.

***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 Php28,766 million and Php28,069 million in 2010 and 2009, respectively. Our 2011 budget for consolidated capital expenditures is approximately Php34.4 billion, of which approximately Php13.5 billion is budgeted to be spent by PLDT and approximately Php19.5 billion is budgeted to be spent by Smart; the balance represents the budgeted capital spending of our other subsidiaries. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. Smart's capital spending is focused on expanding and upgrading its transmission network from the backbone up to last mile facilities to meet anticipated increased demand for cellular and broadband services in a highly-competitive playing field, including improvement of quality and subscriber experience, expansion of capacity and its accelerated network modernization program in order to achieve a greater operational and cost efficiencies.

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. If we cannot complete our development programs and other capital projects, our growth, results of operations and financial condition could be materially and adversely affected.

***Our businesses depend on the reliability of our network infrastructure which is subject to physical, technological and other risks.***

We depend, to a significant degree, on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include:

physical damage;

power loss;

capacity limitation;



**Table of Contents**

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.

***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 has beneficial ownership of approximately 26% in PLDT s outstanding common stock as at February 28, 2011. 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, 2011, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT s outstanding common stock. 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;

**Table of Contents**

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 by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

The FP Parties and/or NTT Communications and/or NTT DoCoMo may exercise their respective influence over these decisions and transactions in a manner that could be contrary to the interests of other shareholders or stakeholders in PLDT.

***If a major shareholder sells its interest in PLDT, the transaction may result in an event of default under certain circumstances.***

If First Pacific Group or NTT Communications sells all or a portion of their equity interest in PLDT, under certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding debt under its US\$250 million 11.375% notes due 2012. As at December 31, 2010, Php6,387 million in principal amount of PLDT's indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

***The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares.***

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act of the Philippines, Republic Act, or R.A., 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law became effective; or (b) the entity's first start of commercial operations, whichever date is later. As the timeframe has lapsed without Smart having conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925.

Smart maintains the position that it has not violated the provision in its franchise to make a public offering of its shares within a certain period, since it believes such provision is merely directory. Further, Smart believes that the policy underlying the requirement for telecommunications entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000, since PLDT was then and continues to be a publicly listed company. 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, there can be no assurance that such bill will be enacted or that Philippine Congress will not revoke the franchise of Smart or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart for the revocation of its franchise for failure to comply with the provision under R.A. 7925 on the public offering of shares.

***Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes.***

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 were granted by the NTC and will expire between now and 2028. For a description of our licenses, see Item 4.

**Table of Contents**

Information on the Company Licenses and Regulation. 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 extensions. Because PLDT filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, we cannot assure you that the NTC will grant these extensions. 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.

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 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 that could have a material adverse effect on our results of operations.

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that PLDT Group will not be subject to new and/or additional taxes and that PLDT Group would be able to impose additional charges or fees to compensate for the imposition of such taxes.

There are bills in the 14th Philippine Congress which propose to tax telecommunications services. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts of telephone and telegraph services in lieu of the VAT. HB No. 1560, which proposes to impose a franchise tax of 3.5% in the first year and 7% thereafter on gross receipts of telecommunications and broadcast companies, in lieu of the VAT. Other bills filed proposed to tax or regulate fees for telecommunications services. Among them, a proposed tax on mobile phone companies on all text entries to text games; a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and a 10% ad valorem tax on all cellular phone calls using 3G, a proposal to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed.

The Committee on Oversight of Congress also held discussions on the possibility of linking up the BIR and NTC with the telecommunications companies through an electronic metering device, which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

In the Upper House, Senate Bill No. 2402 proposes to establish a Health and Education Acceleration Program Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks which would be remitted to the fund for a period of five years. This tax may not be passed on to consumers. Under the proposed bill, telecommunications companies shall no longer pay for the regular income tax on their income from these transactions during the five-year period that the special gross receipts tax on text messaging is imposed. The income tax scheme for text messaging shall revert to the regular income tax for corporations after the five-year period. Moreover, the bill proposes to allow telecommunications companies to deduct 10% of the tax remitted to the fund from their other income as ordinary business expense over a period of ten years. 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 have a material adverse effect on our results of operations and financial condition. We cannot assure you that we would be able to impose additional charges or fees to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges. The 15th Philippine Congress from June 2010 to June 2013, requested Smart to attend a hearing concerning HB No. 1224 or the Corporate Social Responsibility Act Bill filed by Rep. Gloria Macapagal-Arroyo and Rep. Diosdado Macapagal-Arroyo. However, both the Upper House and Lower House have pending bills concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. The PLDT Group has submitted its position papers on both matters.

**Table of Contents**

***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 material adverse effects on our revenues and profitability.***

The NTC may regulate the rates and manner in which we charge the customers of our business.

For example, on July 3, 2009, NTC issued Memorandum Circular No. 03-07-2009 promulgating an extension of expiration of prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

In addition, on July 7, 2009, the NTC issued another Memorandum Circular No. 04-07-2009, further amending the Memorandum Circular No. 03-03-2005A (Rules and Regulation on Broadcast Messaging), which prohibits content and/or information providers from initiating push messages. The Memorandum Circular No. 04-07-2009, further provides that subscribers must be the party to take the initiative with the public telecommunications entities and/or content providers to initiate any service and requires that a notification be sent to subscribers to give subscribers an option whether to continue with the availed service.

In addition, on July 23, 2009 the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to bill subscribers on a maximum six-second pulse basis instead of the previous per minute basis. The NTC granted Smart the provisional authority to charge new rates for the CMTS service and also directed Smart to implement a six seconds per pulse billing scheme on December 5, 2009. Smart subsequently implemented the six seconds per pulse directive by billing on a six second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart's implementation of the six seconds per pulse directive. As at the date of this annual report, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing directive.

Furthermore, from time to time, the NTC issues consultative documents on the development of a competition policy framework for the information communications sector and related matters.

For example, on August 24, 2006, the NTC issued a consultative document specifically focusing on its proposal to impose asymmetric regulations on carriers with significant market power, or SMP, including a discussion on its proposed roadmap for implementing such SMP obligations. On October 23, 2006, we submitted our response to such consultative paper to the NTC.

In formulating our responses, we took into account both industry interests and the broader context of our nation's economic development, drawing on the experience in other countries. We believe that the basis for the need for regulatory reform is unclear and the envisioned SMP regime is inappropriate for the Philippines, as the market is highly competitive and well-functioning. In addition, the imposition of asymmetric regulations on SMP would discourage capital investments in a sector on which the Philippine economy is highly dependent. We have therefore proposed that the NTC explore its full range of options available on a cost-benefit basis, taking into consideration the specific local context of the Philippine marketplace.

Furthermore, in 2008, in connection with the NTC's efforts to enhance competition within the telecommunications industry in the Philippines, the NTC issued Memorandum Circulars on the following:

- (a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued on October 7, 2008 and became effective on October 23, 2008; and
- (b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

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

**Table of Contents**

During the last quarter of 2010, the NTC has begun holding public hearings on a proposed Memorandum Order concerning the minimum speed of broadband internet.

We cannot assure you that the NTC will not impose changes to the current regulatory framework, which could lead to increased competition or affect the rates we charge for our services. Any such changes could have a material adverse effect on our business, results of operations and prospects.

***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 risks and uncertainties relating to:

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, etc., which could have a material adverse effect on our results of operations and financial condition.

***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.***

Effective internal controls over financial reporting are 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 controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, we have been required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management of 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 their audits.

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 the market prices of our common shares and ADSs.

## **Table of Contents**

### **Risks Relating to the Philippines**

#### ***PLDT's business may be 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, the Philippines has experienced a number of street protests and violent civil unrest, including coup d'état attempts against the former President Arroyo's administration.

Furthermore, the Philippine economy has experienced periods of slow growth and significant depreciation of the Philippine peso. The Philippine government is also facing a fiscal deficit that the government is aiming to eliminate in the near future by implementing a number of economic reforms.

The fiscal deficit position of the Philippine government and the ongoing political uncertainty have resulted in increased concerns about the political and economic stability of the country. We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the telecommunications and other companies.

#### ***If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected.***

The Philippine government has, in the past, instituted restrictions on the conversion of the Philippine peso into foreign currencies and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

suspend temporarily or restrict sales of foreign exchange;

require licensing of foreign exchange transactions; or

require the delivery of foreign exchange to the BSP or its designee banks.

We cannot assure you that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

#### ***The occurrence of natural catastrophes could materially disrupt our operations.***

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of the ongoing global climate change. We cannot assure you that we are fully capable to deal with these situations and that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes.

### **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 information and communications technology, 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.

PLDT is the leading fixed line service provider in the Philippines with over 60% of the total reported fixed line subscribers nationwide as at December 31, 2010. Smart is the leading cellular service provider in the country, with approximately 52% of total reported cellular subscribers nationwide as at December 31, 2010. We have interests in the information and communications technology sectors, including the operation of our *Vitro*<sup>TM</sup> data center, customer relationship management and knowledge processing solutions business, and internet and online gaming services.

**Table of Contents**

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 Php476,976 million, or US\$10,887 million, as at December 31, 2010, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2010, we had total revenues of Php144,459 million, or US\$3,297 million, and net income attributable to equity holders of PLDT of Php40,217 million, or US\$918 million.

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

**Historical Background and Development**

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTT-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart. On March 14, 2006, NTT DoCoMo acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT's outstanding common stock as at February 28, 2011. NTT Communications and NTT DoCoMo are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised the First Pacific Group's beneficial ownership to approximately 28% of PLDT's shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at February 28, 2011. 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, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses.

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

**Recent Developments**

***PLDT's Acquisition of Digital***

On March 29, 2011, the boards of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digital, comprising of: (i) 3,277,135,882 common



shares in Digitel, representing approximately 51.55% equity stake; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiaries to JGS and its subsidiaries, which PLDT expects to be convertible into

**Table of Contents**

approximately 18.6 billion shares of Digitel by June 30, 2011; and (iii) intercompany advances of Php34.1 billion made by JGS and its subsidiaries and certain of such seller-parties to Digitel and its subsidiaries (the *Assets*). Digitel is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT share for every Php2,500 consideration payable for the *Assets*. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT will engage an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT.

PLDT further expects to announce its intention to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the other remaining shareholders of Digitel. Under the contemplated tender offer, it is anticipated that PLDT will offer to purchase the remaining Digitel shares at the price of Php1.60 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of the Digitel shareholder. The contemplated tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT shares for the acquisition of the *Assets* and of the remaining Digitel shares held by the other remaining shareholders of Digitel. The 29.65 million new PLDT shares will potentially represent approximately 13.7% of the enlarged issued share capital of PLDT on a fully diluted basis.

Assuming full acceptance by the minorities of Digitel, the total transaction consideration would be Php74.1 billion.

The completion of the acquisition will be subject to the procurement of regulatory approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stocks; (ii) the approval by the Philippine SEC of the valuation of the *Assets*; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the *Assets*. In addition, the sale of the Digitel shares is subject to the consent of certain creditors of Digitel and DMPI.

This transaction is intended to be completed by the end of the second quarter of 2011.

**Reorganization of ePLDT**

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 (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. The BPO business group will be eventually transferred to PLDT, subject to the finalization of the terms and conditions thereof and the execution of relevant agreements.

Although our Board of Directors already approved the reorganization of ePLDT into two business groups, ICT business group and BPO business group, the actual reorganization has not yet been consummated as at March 29, 2011 and therefore, as at December 31, 2010, the chief operating decision maker continues to view our business activities using the three business units: Wireless, Fixed Line and ICT.

**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, 2008, 2009 and 2010 and those planned for 2011. We have not undertaken any significant divestitures and currently do not have any significant divestitures in progress.

**Table of Contents****Organization**

PLDT Group includes the following significant subsidiaries as at March 29, 2011:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership	
			Direct	Indirect
<b>Wireless</b>				
Smart:	Philippines	Cellular mobile services	<b>100.0</b>	
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution		<b>100.0</b>
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		<b>100.0</b>
I-Contacts Corporation, or I-Contacts	Philippines	Call center services		<b>100.0</b>
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		<b>100.0</b>
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		<b>100.0</b>
Smarthub, Inc., or SHI	Philippines	Software development and sale of maintenance and support services		<b>100.0</b>
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		<b>100.0</b>
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		<b>100.0</b>
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms		<b>100.0</b>
Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		<b>100.0</b>
PH Communications Holdings Corporation, or PHC	Philippines	Investment company		<b>100.0</b>
Francom Holdings, Inc., or FHI:	Philippines	Investment company		<b>100.0</b>
Connectivity Unlimited				
Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services		<b>100.0</b>
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider		<b>100.0</b>
PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Subsidiaries, or PCEV Group	Philippines	Investment company		<b>99.5</b>
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company		<b>100.0</b>
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or		<b>100.0</b>

		GSM, enabled global telecommunications		
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		<b>85.0</b>
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector		<b>51.0</b>
Telesat, Inc., or Telesat*	Philippines	Satellite communications services	<b>100.0</b>	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	<b>88.5</b>	<b>11.5</b>
Mabuhay Satellite Corporation, or Mabuhay Satellite*	Philippines	Satellite communications services	<b>67.0</b>	
<b>Fixed Line</b>				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	<b>100.0</b>	
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	<b>100.0</b>	
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	<b>100.0</b>	
Smart-NTT Multimedia, Inc., or SNMI*	Philippines	Data and network services	<b>100.0</b>	
PLDT-Philcom, Inc. (formerly known as Philcom Corporation), or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	<b>100.0</b>	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	<b>97.8</b>	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services, or VAS	<b>75.0</b>	
<b>Information and Communications Technology, or ICT</b>				
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and IT-related services	<b>100.0</b>	
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions		<b>100.0</b>
SPi CRM Inc., or SPi CRM (formerly ePLDT Ventus, Inc.)**	Philippines	Customer relationship management		<b>100.0</b>
Parlance Systems, Inc., or Parlance**	Philippines	Customer relationship management		
Vocativ Systems, Inc., or Vocativ**	Philippines	Customer relationship management		
Infocom Technologies, Inc., or Infocom	Philippines	Internet services		<b>99.6</b>
	Philippines			<b>93.5</b>

BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or BayanTrade Group		Internet-based purchasing, IT consulting and professional services	
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet services	<b>75.0</b>
Level Up!, Inc., or Level Up!	Philippines	Publisher of online games	<b>57.5</b>
netGames, Inc., or netGames	Philippines	Customer relationship management	<b>57.5</b>

\* *Ceased commercial operations*

\*\* *On April 8, 2010, SPi CRM, Parlance and Vocativ were merged, with SPi CRM as the surviving entity.*

**Development Activities (2008-2010)**

On April 25, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI, which collectively own 100% equity interest of CURE for a total consideration of Php420 million. PHC and FHI own 97% and 3%, respectively, of CURE.

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

**Table of Contents**

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

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

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon. On March 30, 2010, the investment in Meralco by PCEV was reduced by Php15,083 million, the proportionate carrying amount of 154.2 million Meralco shares sold and transferred to Beacon.

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

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

On March 30, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. The amount drawn under this facility amounted to Php16,200 million (Php16,027 million, net of debt issuance cost of Php173 million), the remaining undrawn balance amounted to Php1,800 million as at December 31, 2010. This facility is not guaranteed by PLDT and is not included in our consolidated debt.

As at December 31, 2010, the carrying value of Beacon's investment in Meralco of Php73,322 million includes: (a) consideration for the Transferred Shares from PCEV of Php23,130 million and from MPIC of Php24,540 million; (b) consideration for the Option Shares from FPHC of Php22,410 million; (c) liability for contingent consideration of Php2,373 million; (d) capitalized costs of Php942 million pursuant to an agreement between PCEV and MPIC; and (e) equity share in net earnings of Meralco of Php2,655 million less (f) dividends received of Php2,728 million from Meralco.

As at December 31, 2010, Beacon held 393 million Meralco common shares representing approximately 35% equity interest in Meralco with market value of Php89,490 million based on a quoted price of Php228 per share. See Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further information on the acquisition of Meralco shares and the transfer of PCEV's equity interest in Meralco.

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, fully payable in cash on August 12, 2009, from PCEV's non-controlling shareholders up to approximately 840 million shares which is approximately 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report



**Table of Contents**

offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of PCEV's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of PCEV. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statement of financial position. See Note 13 Business Combinations and Acquisition of Non-Controlling Interests to the accompanying consolidated financial statements in Item 18 for further discussion.

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

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

PCEV's Board of Directors approved three share buyback programs during its meetings on November 3, 2008, March 2, 2009 and August 3, 2009. For all three programs, the buyback was done through the trading facilities of the PSE via open market purchases, block trades or other modes, subject to compliance with applicable laws, rules and regulations. Number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3, 2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. The program approved on August 3, 2009 is still ongoing and will continue until the number of shares earmarked for the program has been fully repurchased or until such time as PCEV's Board of Directors determines otherwise. The most recent share buyback program was undertaken to accommodate minority shareholders who may not have had the opportunity to participate in the tender offer of Smart due to various constraints. The maximum price under this program is Php8.50 per share. As at December 31, 2010, approximately 3.6 million shares at a cost of Php29.8 million have been repurchased under the third buyback program. Cumulative shares repurchased under the share buyback programs totaled approximately 86.6 million and 85.8 million at an aggregate cost of Php621 million and Php614 million as at December 31, 2010 and 2009, respectively, which reduced the amount of non-controlling interests by the same amount.

On August 31, 2009, SPi (through SPi-America, a wholly-owned U.S. subsidiary of SPi) signed a Stock Purchase Agreement with Laguna Medical, a California Corporation, and its various sellers, to purchase 80% of the issued and outstanding common shares of Laguna Medical for a cash consideration of US\$6.6 million, or Php313 million. Simultaneous with the agreement to acquire the 80% equity interest of Laguna Medical, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation, in respect of the remaining 20% of the outstanding common stock of Laguna Medical held by Laguna Medical LLC. Under said Put-Call Agreement, commencing on July 1, 2011, Laguna Medical LLC granted SPi the exclusive right to purchase the remaining Laguna Medical shares (call right) while SPi granted Laguna Medical LLC the exclusive right to sell the remaining Laguna Medical shares (put right) to SPi. Based on our evaluation of the mandatory Put-Call option, SPi has present access to the economic benefits associated with the ownership interest in Laguna Medical, hence, control over the 20% interest has already been in the possession of SPi since August 31, 2009. As a result, the effective ownership interest of Laguna Medical



acquired by SPi on August 31, 2009 was 100%. The acquisition cost for the remaining 20% of the outstanding common stock of Laguna Medical is equivalent to the base price of US\$2 million plus the change in Laguna Medical EBITDA from the date of acquisition to April 30, 2011 multiplied by applicable performance factors specified in the agreement.

**Table of Contents**

In May and October 2009, Smart acquired an aggregate of approximately 84 million shares, representing the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. The acquisition was completed on two dates: (a) the first closing took place on May 14, 2009 and involved the acquisition of approximately 34 million shares representing 40% of the issued and outstanding shares of PDSI for a consideration of Php632 million; and (b) the second closing took place on October 2, 2009 and involved the acquisition of the remaining approximately 50 million shares representing 60% of the issued and outstanding shares of PDSI for a consideration of Php937 million.

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka, a mobile applications development and services company, for a total consideration of US\$13.5 million, or Php629 million, of which US\$12.1 million, or Php564 million, was paid in cash on December 18, 2009 and the balance of US\$1.4 million, or Php65 million, was paid on September 27, 2010 upon completion of the post closing provisions. See Note 23 Accrued Expenses and Other Current Liabilities to the accompanying consolidated financial statements in Item 18 for further discussion.

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

**Wireless**

We provide cellular and wireless broadband, satellite and other services through our wireless business, which contributed about 92% and 8% of our wireless service revenues, respectively, in 2010. In previous years, rapid growth in the cellular market has resulted in a change in our revenue composition with cellular service as 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 text to VAS, contributed significantly to our revenue increase. Our total wireless revenues accounted for 61% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008. For each of the years ended December 31, 2010, 2009 and 2008, our cellular service revenues accounted for 91% of our total wireless revenues.

Our cellular service, which accounted for about 92% of our wireless service revenues for the year ended December 31, 2010, is provided through Smart and CURE. As measured by subscriber base, Smart is the leading cellular service provider in the Philippines, with 45,636,008 subscribers as at December 31, 2010 including 953,609 subscribers of *Red Mobile*, representing a market share of approximately 52%. In 2010, the combined number of Smart and *Red Mobile* subscribers increased by 4,307,367, or 10%, to 45,636,008. The growth was due to a combination of organic subscriber growth and multiple SIM card ownership especially in the lower income segment of the Philippine wireless market. The continued popularity of multiple SIM card ownership, together with unlimited voice offers, resulted in a decrease in our average revenue per user, or ARPU, and partly due to the continuous introduction of innovative services. Cellular penetration in the Philippines reached approximately 94% as at December 31, 2010, or approximately 24 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Nearly 99% of Smart's and all of Red Mobile's cellular subscribers as at December 31, 2010 were prepaid service subscribers and subscriber gains in 2010 were predominantly attributable to their respective prepaid services. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market, allowing us to increase and broaden our subscriber base rapidly while controlling credit risk and reducing billing and administrative costs on a per-subscriber basis.

Our cellular subscriber growth has also been driven by text messaging. Text messaging continues to be 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. While still a significant contributor to Smart's and *Red Mobile*'s cellular data service volume growth in 2010, cellular data service revenues decreased by Php5,543 million, or 12%, to Php41,529 million in 2010 from Php47,072 million in 2009.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metro 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 10,316

**Table of Contents**

cellular/mobile broadband base stations as at the end of December 2010, Smart's cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

**Fixed Line**

We are the leading provider of fixed line telecommunications services throughout the country. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,822,105 fixed line subscribers as at December 31, 2010, an increase of 5,564 from the 1,816,541 fixed line subscribers as at December 31, 2009. Total revenues from our fixed line accounted for 32% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008. International long distance revenues and national long distance revenues have been declining largely due to a drop in call volumes as a result of alternative means of communications such as texting, e-mailing and internet telephony. Partly mitigating these declines has been the growth of our data and other network services in recent years. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new packet-switched, data-capable and IP-based networks.

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

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

**Information and Communications Technology**

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated information and communications technology, or ICT, services focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal activities are the operation of an internet data center under the brand name *Vitro*, customer relationship management, knowledge processing solutions, and internet and online gaming business. Total revenues from our ICT services accounted for 7% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008.

**Strengths**

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

*Recognized Brands.* PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for over 80 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. The *Talk N Text* brand, which is provided using Smart's network, has also gained significant recognition as a reliable value for money brand.

*Leading Market Shares.* With over 49 million fixed line, cellular and broadband subscribers as at December 31, 2010, we have the leading market positions in each of the fixed line, cellular and broadband markets in the Philippines.

*Diversified Revenue Sources.* We derive our revenues from our three business segments, namely, wireless, fixed line and ICT businesses, with wireless contributing 61%, fixed line 32% and ICT 7% to our total revenues in 2010. Revenue sources of our wireless business include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. In our ICT business, sources of revenue include knowledge processing solutions, customer relationship management and internet and online gaming business, and data center and other services. Revenues from our fixed line services, such as local exchange, national and international long distance, have been declining over the past years due to



## **Table of Contents**

pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution of our data and other network service. Fixed line revenues represent 32% of our total revenues in 2010, 2009, and 2008. We will continue to identify and develop new revenue sources to further broaden our diversified revenue base for our wireless, fixed line and ICT businesses.

*Advanced Integrated Network.* With the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. This includes the build out of a second network that has been designed to contain the increase in voice traffic resulting from lower cost voice offers under our Red Mobile brand. This network and brand strategy will allow the quality of service on our main network serving our Buddy and Talk and Text brands to be maintained. In addition, we continue our upgrade of our fixed line network to an all IP-based NGN, and continue to roll out 3G and wireless broadband in order to increase broadband subscribers and expand our data/broadband capabilities. We are also investing in the upgrade of our wireless network to achieve, among others, greater operational and cost efficiencies.

*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 Buddy* and *Talk N Text* subscribers.

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

## **Strategy**

The key elements of our business strategy are:

*Build on our leading positions in the fixed line and wireless businesses.* We plan to build on our position as the leading fixed line and wireless service providers in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost and to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. We are currently upgrading our fixed line facilities to NGN, and have rolled out a 3G network based on a W-CDMA technology as well as expanding our DSL and wireless broadband facilities. We plan to upgrade of our wireless network to achieve operating and cost efficiencies. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.

*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 ICT services utilizing our network and business platforms. We are also lowering our costs by integrating the operations of our different businesses.

*Strengthen our leading position in the data and broadband market.* Leveraging on the inherent strength 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 have launched various products and services in the data and broadband market that address different market needs.

*Maintain a strong financial position and improve shareholder returns.* In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction.

**Table of Contents**

As the cash flows generated by our businesses have increased and our leverage ratios have improved, we have been able to restore the payment of cash dividends to our common shareholders beginning 2005 and were able to declare dividend payouts of approximately 100% in each of 2008, 2009 and 2010 of our core earnings. We expect that our free cash flows will continue to be utilized for the payment of cash dividends to common shareholders and investments in new growth areas while continuing to maintain a healthy balance sheet position. As part of our growth strategy, we made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in telecommunications as well as telco-related businesses such as those in the global outsourcing and off-shoring industry.

**Business****Wireless**

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

*Cellular Service**Overview*

Our cellular business, which we provide through Smart and CURE to over 45 million subscribers, approximately 99% of whom are prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other VAS, which include: (a) *Smart Money*; (b) specialized content such as ringtones, logos, caller ringback tunes; (c) *Mobile Banking* (banking services delivered over the cellular network); (d) international roaming; and (e) games and other VAS developed on Smart's platform.

The following table summarizes key measures of Smart's and CURE's cellular business as at and for the years ended December 31, 2010, 2009 and 2008:

		<b>2010</b>		<b>2009</b>		<b>2008</b>
Systemwide cellular subscriber base		45,636,008		41,328,641		35,224,604
Prepaid		45,214,433		40,893,098		34,826,468
<i>Smart Buddy</i>		25,293,443		23,762,814		20,501,617
<i>Talk N Text</i>		18,967,381		17,050,713		14,308,493
<i>Red Mobile</i> <sup>(1)</sup>		953,609		79,571		16,358
Postpaid		421,575		435,543		398,136
Growth rate of cellular subscribers		10%		17%		17%
<i>Smart Buddy</i>		6%		16%		3%
<i>Talk N Text</i>		11%		19%		47%
<i>Red Mobile</i> <sup>(1)</sup>		1,098%		386%		100%
Cellular revenues (in millions)	Php	86,399	Php	88,410	Php	87,518
Voice		42,250		38,850		37,275
Data		41,529		47,072		47,804
Others <sup>(2)</sup>		2,620		2,488		2,439
Percentage of cellular revenues to total wireless service revenues		92%		92%		94%
Percentage of cellular revenues to total service revenues		56%		56%		57%

(1) *The Red Mobile brand was launched in November 2008 by CURE.*

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

*Service Plans.* Smart markets nationwide cellular communications services under the brand names *Smart Buddy*, *Talk N Text*, *Smart Gold* and *Smart Infinity*, while CURE offers *Red Mobile*. *Smart Buddy*, *Talk N Text* and *Red Mobile* are prepaid services while *Smart Gold* and *Smart Infinity* are postpaid services, which are all provided through



Smart's digital network.

Smart has focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up services which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of preset duration. Starting out as purely on-network packages, Smart's top-up services now include text message bundles available to all networks.

**Table of Contents**

Smart also has a roster of 3G services which it commercially launched in May 2006. These services include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

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

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

*Smartalk 500* which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

Buoyed by the widespread acceptance of the service, Smart offers *Smartalk Plus*, which includes unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:00 p.m. to 5:00 p.m., and call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 9:59 p.m. As a result, Smart's 2010 outbound voice traffic almost doubled from 2009 levels. In 2010, Smart expanded its roster of unlimited offerings on the back of the planned capacity expansion of its networks. Smart expects to continue to successfully maintain its market leadership through innovative voice and text packages that drive activations, boost usage and strengthen brand equity.

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

*Red Mobile Unlimited* offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers using a secondary network powered by Smart.

*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 Php42,250 million, Php38,850 million and Php37,275 million, or 49%, 44% and 43% of cellular service revenues in 2010, 2009 and 2008, respectively. Local calls continue to dominate outbound traffic constituting 83% of all our cellular minutes. Domestic inbound and outbound calls totaled 23,110 million minutes in 2010, an increase of 9,739 million minutes, or 73%, as compared with 13,371 million minutes in 2009, due to increased usage resulting from unlimited voice offerings. International inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in cellular subscriber base. The ratio of inbound-to-outbound international long distance minutes was 13.5:1 for 2010.

*Data Services.* Cellular revenues from data services include all text messaging-related services, as well as, VAS. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling 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. Text messaging also utilizes less network capacity than voice, thereby increasing network efficiency.

Text messaging has been one of the key drivers for our cellular subscriber growth. Despite the strong volume growth in text messaging, Smart's cellular revenues from this service declined by 13% to Php38,901 million in 2010 from Php44,573 million in 2009, resulting mainly from the continued decline in SMS yield as a result of aggressive SMS pricing offers, the prescribed extension of load validity periods and alternative means of communication and increases in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS. In 2010, Smart's text messaging system handled 18,319 million outbound messages on standard SMS services with 312,634 million messages generated by bucket-priced text services.



**Table of Contents**

In 2010, approximately 48% of Smart's cellular revenues were derived from data usage, compared to 53% in 2009. Smart also offers the following value-added cellular services:

*Smart Money*, which is a reloadable payment card powered by MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their Smart Money cards and reload their *Smart Buddy*, *Talk N Text* and *Smart Bro* accounts electronically; and

*Mobile Banking*, launched in collaboration with various banks, allows subscribers to execute banking transactions such as balance inquiries and transfers over their mobile telephones.

Consistent with Smart's objective to develop new businesses, Smart introduced a fixed wireless broadband service under the brand *Smart Bro* to complement PLDT's DSL in areas that are currently not covered by the fixed line network. *Smart Bro* is rapidly increasing network coverage in order to retain first-mover advantage in areas with limited or no fixed line or broadband coverage. *Smart Bro* is also pioneering a shared access model in order to propagate broadband and address affordability barriers.

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. Our current approach is to continue maximizing our GSM, or 2G, network services while upgrading our network to Enhanced Data for GSM Evolution, or EDGE. EDGE is a technology that would further increase the speed and data capability of our GSM network. In addition, on December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked the highest among competing operators with a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result of being ranked highest, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to deploy its 3G network nationwide and at the same time offer the highest quality of 3G service.

*Rates and Discounts*

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 Buddy* and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500, which include zero, 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of our over-the-air electronic loading facility *Smart Load* made reloading of air time credits more convenient and accessible for consumers. *Smart Load's* over-the-air reloads have evolved to respond to market needs and now come in denominations of Php15, Php30, Php60, Php115, Php200, Php300, Php500 and Php1,000 with corresponding expiration periods, as well as Php10 available via *Talk N Text's* ticket load only and Php20 available only as a bucket load package. The introduction of our over-the-air *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or bucket plans as a means of driving subscriber activations and stimulating usage. These bucket plans, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be extremely popular with subscribers and now account for 25% of our wireless service revenues. In the past years, Smart also began to offer unlimited voice and text plans under its various brands in order to be competitive and maintain industry leadership.

*Smart Buddy* subscribers are charged Php6.50 per minute for calls to *Smart Buddy* 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 Buddy* and other cellular fixed line subscribers are charged Php6.50 per minute. *Red Mobile* subscriber calls to other *Red Mobile* subscribers are charged at Php0.50 per minute. Calls to *Smart Buddy* and *Talk N Text* subscribers are charged Php2.00 per minute while calls to other networks subscribers are charged Php6.50 per minute.



**Table of Contents**

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

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

Smart subscribers pay an international direct dialing rate of US\$0.40 per minute. This rate applies to most destinations, including the United States, Hong Kong, Japan, Singapore, the United Kingdom and the United Arab Emirates. Smart charges US\$0.98 per minute for 27 other destinations and US\$2.18 per minute for another ten destinations. 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.

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 20 regional distributors, all exclusive and 49 key account dealers, 23 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products introductions. With the introduction of *Smart Load*, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the sachet marketing concept of consumer goods such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, *Smart Load*'s distribution network now encompasses approximately 2.2 million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs, individual roving agents). These micro-retailers must be affiliated with any of Smart's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became more affordable and accessible to subscribers.

For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, air time cards and over-the-air reloads sold. Smart compensates dealers with Php100 to Php800 in cash discount per unit depending on the price of the prepaid phone kit sold. Air time cards and over-the-air reloads are sold to distributors at an average discount of approximately 8% and 5%, respectively. Air time cards cannot be returned or refunded and normally expire within six to 12 months after release from the Smart warehouse.

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

We currently provide wireless broadband, and satellite and other services through SBI, BOW, our wireless GSM communications service provider for the maritime sector, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator.

***SBI***

Through SBI, we are engaged in providing wireless broadband and data services under the brand name *Smart Bro* to residential consumers as well as small and medium-scale enterprises in the Philippines. As at December 31, 2010, SBI had 1,355,977 wireless broadband subscribers, an increase of 318,257 subscribers, or 31% as compared with 1,037,720 subscribers as at December 31, 2009. *Smart Bro* aims to strengthen Smart's position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available.

**Table of Contents**

*PDSI*

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

*Airborne Access*

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

*Wolfpac*

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

*Chikka*

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

*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 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18 for further discussion regarding the ATPA.

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

*Revenues*

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

*Rates*

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

SBI offers mobile internet access through *Smart Bro Plug-It*, a wireless modem which provides instant connectivity in places where there is Smart network coverage. *Smart Bro Plug-It* is available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf100* and *Unli Surf50* for *Smart Bro Plug-It Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

*Smart Bro WiMAX* service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* was initially offered at Plan 999 for unlimited broadband usage with a burst speed of up to 1 Mbps.

**Table of Contents**

Additional unlimited broadband packages are also available under Plan 799 and Plan 1995 with speeds of up to 512 kbps and up to 2 Mbps, respectively.

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

ACeS mobile service subscribers are charged Php13.84 per minute for local and cell-to-cell 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 subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI and Maratel. Together, these subsidiaries account for approximately 4% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange service as at and for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Number of local exchange line subscribers	1,822,105	1,816,541	1,782,356
Number of fixed line employees	7,395	7,947	7,813
Number of local exchange line subscribers per employee	246	229	228
Total local exchange service revenues (in millions)	Php 15,321	Php 15,681	Php 15,923
Local exchange service revenues as a percentage of total fixed line service revenues	31%	31%	32%
Local exchange service revenues as a percentage of total service revenues	10%	10%	10%

Revenues from our local exchange service decreased by Php360 million, or 2%, to Php15,321 million in 2010 from Php15,681 million in 2009 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 31% in each of 2010 and 2009.

**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, 2010. 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 Php1,200 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 the basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls



to PLDT and other landlines within a local area code are free. Our prepaid fixed line customers generally do not pay a basic monthly charge and are charged based on usage.

**Table of Contents**

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

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

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

For a detailed description of these rates, see [International Long Distance Service Rates](#) and [National Long Distance Service Rates](#).

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-dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In 2010, we have not made any adjustment in our monthly local service rates. In a letter dated July 11, 2008, the NTC had approved our request to implement a rate rationalization program for our local service rates. In effect, there has been no change in the average Philippine peso to U.S. dollar rate of Php49.76 to US\$1.00 factored in our monthly local service rates until the end of 2010.

For a detailed description of these rates, see [International Long Distance Service Rates](#) and [National Long Distance Service Rates](#).

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

***International Long Distance Service***

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

The following table shows certain information about our international long distance services for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total call volumes (in million minutes)	1,714	1,863	2,024
Inbound call volumes (in million minutes)	1,515	1,653	1,786
Outbound call volumes (in million minutes)	199	210	238
Inbound-outbound call ratio	7.6:1	7.9:1	7.5:1
Total international long distance service revenues (in millions)	Php5,224	Php6,255	Php7,063
International long distance service revenues as a percentage of total fixed line service revenues	11%	12%	14%
International long distance service revenues as a percentage of total service revenues	4%	4%	5%

International long distance service historically has been a major source of our revenue. However, primarily due to the steep decline in inbound termination and collection rates and intense competition, revenues derived from our international long distance service have been declining significantly.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (a) lowering our inbound termination rates; (b) identifying and containing unauthorized traffic termination

**Table of Contents**

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

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2010, 2009 and 2008:

	Net Settlement		
	2010	2009	2008
	(in millions)		
Saudi Arabia	US\$ 32	US\$ 33	US\$ 30
United States	31	25	46
United Arab Emirates	14	20	20
Japan	11	17	14
Qatar	11	5	4
Hongkong	10	8	4
Taiwan	6	6	6
Singapore	4	5	5
Canada	3	9	9
Others	19	29	36
Total	US\$ 141	US\$ 157	US\$ 174

**Rates**

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

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 peso amounts are determined at the time of billing. We charge a flat rate of US\$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international long distance service through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling services at IDD call rates ranging from Php1.50 per minute to Php15.00 per minute depending on the destination to more than 100 calling destinations (excluding the Middle East). In April 2007, we introduced the *Budget Card Middle East Edition* which 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.

**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.

**Table of Contents**

The following table shows certain information about our national long distance services for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total call volumes (in million minutes)	1,290	1,822	1,944
Total national long distance service revenues (in million pesos)	4,690	5,969	6,207
National long distance service revenue as a percentage of total fixed line service revenues	10%	12%	13%
National long distance service revenue as a percentage of total service revenues	3%	4%	4%

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing and cellular text messaging, have negatively affected our national long distance call volumes partially offset by 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, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

*Rates*

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

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

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

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

*Data and Other Network Services*

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

**Table of Contents**

The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Subscriber base:			
<i>Broadband</i>	665,027	576,687	448,826
DSL	643,048	559,664	432,583
WeRoam	21,979	17,023	16,243
<i>SWUP</i>	15,641	12,383	6,516
Total data and other network service revenues (in million pesos)	21,646	21,567	18,607
Domestic	15,637	16,391	14,155
<i>Broadband</i>	8,511	7,232	5,563
DSL	8,263	7,024	5,360
WeRoam	248	208	203
<i>Leased Lines and Others</i>	7,126	9,159	8,592
International			
<i>Leased Lines and Others</i>	6,009	5,176	4,452
Data and other network service revenues as a percentage of total fixed line service revenues	44%	42%	38%
Data and other network service revenues as a percentage of total service revenues	14%	14%	12%

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

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

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

In 2010, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

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

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

The *WeRoam Notebook Shop* bundles *WeRoam* with the latest Lenovo business laptops to provide companies with powerful mobile productivity solutions. The *WeRoam Notebook Shop* is available in three packages, *Portable*, *Productive* and *Performance*, depending on the computing power needed, offered at monthly recurring fees ranging from Php2,520 to Php8,926.

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means

to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas.

**Table of Contents**

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other Global Service Providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies.

**Information and Communications Technology**

We conduct our ICT businesses through our wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of: (1) knowledge processing solutions, through the SPi Group; (2) customer relationship management through SPi CRM; (3) an internet data center under the brand name *Vitro*; and (4) internet and online gaming through Infocom, netGames, Digital Paradise and Level Up!. Our ICT business registered revenues of Php11,358 million, Php11,549 million and Php10,983 million for the years ended December 31, 2010, 2009 and 2008, respectively, accounting for 7% of our total revenues in each year. The growth in the revenue contribution from our ICT business was primarily due to the continued growth of our data center and knowledge processing solutions businesses' service revenues.

**Knowledge Processing Solutions**

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

**Customer Relationship Management**

We provide our customer relationship management business primarily through SPi CRM. SPi CRM provides offshore, cost-effective contact center outsourcing solutions specializing in inbound customer care; customer and technical support to its clients in the Philippines, U.S. and U.K.; and exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In 2010, we owned and operated 5,565 seats with an average of 4,592 CSRs compared to 7,140 seats with an average of 5,190 CSRs in 2009. As at December 31, 2010 and 2009, SPi CRM had six and seven customer relationship management sites, respectively.

**Internet and Online Gaming**

ePLDT owns a 99.6% equity interest in Infocom, one of the country's leading internet service providers, or ISPs. Infocom offers consumer prepaid internet access under the name *WarpSpeed* and *Speed Tipid*, and postpaid internet access; dedicated dial-up and multi-user dial-up corporate leased lines; broadband internet access through DSL and cable; and website consulting, development and hosting. ePLDT also owns a 75% equity interest in Digital Paradise, an internet café business with 104 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia*. ePLDT further holds a 57.5% equity interest both in netGames, a publisher of Massively Multi-player Online Games in the Philippines and in Level Up!, a leading publisher of online games in the Philippines.

**Data Center and Others**

ePLDT operates *Vitro*, one of the Philippines' first internet data centers that provides co-location, web and server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and web hosting, shared applications, data disaster recovery and business continuity services, intrusion detection and IP security services, as well as firewall and managed firewall, and other data services.



**Table of Contents**

**Infrastructure**

**Wireless Network Infrastructure**

***Cellular***

Through Smart, we operate a digital GSM network. To meet the growing demand for cellular services, Smart has implemented an extensive deployment program for its GSM network covering substantially all of Metropolitan Manila and most of the other population centers in the Philippines. As at December 31, 2010, Smart had 48 mobile switching centers, 94 text messaging service centers and 10,316 cellular/mobile broadband base stations in operation after having added 589 cellular/mobile broadband base stations to its nationwide cellular network in 2010.

Smart has an operating spectrum of 7.5 MHz in the 900 band supporting 20 MHz in the 1800 band for its GSM network and 15 MHz in the 2100 band and 10 MHz in the 850 band assigned for 3G and W-CDMA. Smart's 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. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Smart has been deploying its 3G network in urban areas where there is a demand for mobile broadband applications and where 3G mobile units are more likely to be available. We do not expect spectrum constraints to affect Smart's expansion plans for GSM in the foreseeable future.

Due to its access to PLDT's network assets, Smart has been able to achieve significant capital expenditure savings, which capital expenditures are understood to be significantly less, on a per net addition basis, than its current competitors. This translates into an improved ability to price competitively and target the mass market subscriber base in the Philippines, while retaining profitability. Based on existing equipment purchase contracts, Smart expects incremental capital expenditure per net additional subscriber to amount to less than US\$50.

Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. Smart has been continuously extending its 3G footprint and since it commenced, it now covers 410 cities and municipalities which includes the whole Metro Manila and major urban centers nationwide. Smart also upgraded its 3G network to HSDPA to provide users with high download data rates and an improved broadband experience.

Smart has been co-locating its cell sites where its base stations are installed. As at December 31, 2010, 27 of Smart's mobile switching centers were housed in PLDT's fixed line complexes. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

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

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

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

**Table of Contents****Fixed Line Network Infrastructure*****Domestic***

Our domestic telephone network includes installed telephones and other equipment on customers' premises, local access lines connecting customers to exchanges, referred to as outside plant, inter-office lines connecting exchanges, and long distance transmission equipment. We have a total of 203 central office exchanges nationwide as at December 31, 2010 and continuously expanding the wireline infrastructure in unserved and underserved areas using new technology.

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

We have also started the upgrading of our legacy data and transport networks to IP-based platform. This enables us to also replace the old data network and provides new capabilities to our corporate data customers. We also expect to complete this initiative in 2015.

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

Furthermore, we have several networks that provide domestic and international connectivity for corporate customers and other carriers. These include the Multi-Service Access Platform, or MSAP, based on synchronous digital hierarchy, or SDH, technology and legacy data networks that provides wide range of bandwidth from low speed to high speed capacity in Gigabits per seconds. These networks are deployed in strategic areas nationwide comprising of more than a thousand nodes and these networks will eventually be evolved to a converged multi-service Carrier Ethernet Network starting this year.

We have our own 10,050-kilometer DFON, the country's first telecommunications network using fiber optics in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network employs MSAP and Reconfigurable Optical Add-Drop Multiplexer technologies to improve network performance and reduce operating costs. Our network is composed of in-land and submarine cable installations and is configured in seven self-healing rings and three self-healing subtending rings, or small rings within the main DFON loop, allowing route delivery even in the event of single link failure per ring. Further, one main and one subtending rings are also provided with a third fiber optic cable routes to further improve network resiliency in case of double/multiple link failures within the ring. To date, the PLDT DFON has an aggregate capacity of 1.7 Terabits per second and is connected directly to four international submarine cable systems. PLDT's fiber optic transport network is augmented by the nationwide terrestrial microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to remote areas.

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

For many years, PLDT has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to lease agreements with Meralco. PLDT, through PCEV, has approximately 6% direct ownership interest in Meralco and approximately 17.5% indirect interest in Meralco through PCEV's investment in Beacon, and has in this regard entered into an investment and cooperation agreement with the Lopez Group providing it with certain corporate governance rights in respect of Meralco. See Information on the Company Infrastructure - Fixed Line Network Infrastructure, Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Investing Activities and Note 10 - Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further information on the Meralco shares acquisition and the transfer of PCEV's equity share in Meralco.



**Table of Contents*****International***

We provide international network services using our two international gateway switching exchanges. As at December 31, 2010, our international long distance facilities allow direct correspondence with 40 countries (representing 79 correspondents) and can reach 668 foreign destinations (via direct and transited routes including fix and mobile breakouts) worldwide. We also own interests in submarine cable systems, through which we route all of our international traffic.

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

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

In November 2009, PLDT, along with a consortium of major carriers in Asia and North America, put into service a new international cable system first started in 2007, the Asia-America Gateway, connecting the Asia-Pacific Region and North America with a capacity of 100 Gigabit per second and using the latest Dense Wavelength Division Multiplexing, or DWDM, technology to provide upgradeable, future proof transmission facilities. This new cable system not only provides PLDT additional capacity to support rapid growth of broadband and resiliency to existing international cable systems, but also puts PLDT in a strategic position to be the gateway between Asia-Pacific and North America which provides opportunities for new business as regional internet hub.

In July 2010, PLDT signed a Memorandum of Understanding to plan the Asia Submarine-cable Express (ASE) project. On January 27, 2011, PLDT signed the ASE Construction and Maintenance Agreement with leading telecommunication companies of Japan, Singapore and Malaysia. As the Philippine Landing Party, PLDT will build a

new cable landing station in Daet, Camarines Norte to accommodate the ASE. The system will initially connect the Philippines, Japan, Hong Kong, Singapore and Malaysia. It is expected to be operational by the third quarter of 2012.

**Interconnection Agreements**

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

Effective January 1, 2003, local access for cellular operators, including Smart, that terminate calls to PLDT's fixed line network increased from Php2.00 per minute to Php2.50 per minute, which further increased to Php3.00 per minute effective January 1, 2004.

Since January 1, 2004, domestic calls terminating to cellular subscribers originating from fixed line subscribers were charged a termination rate of Php4.00 per minute.

Under a separate agreement between PLDT and PAPTELCO, PLDT is the transit facility provider between Smart, Globe, other LECs, operators and PAPTELCO. Transit traffic is a service by PLDT to Smart, Globe, other LEC operators and PAPTELCO members where PAPTELCO members have no direct interconnection with either

**Table of Contents**

Smart, Globe and other LEC operators. PLDT also has similar arrangement with other non-members of PAPTELCO.

Effective January 1, 2002, Smart charged a termination rate of Php4.00 per minute for domestic calls originating from or terminating to another cellular operator's network. For SMS originating from Smart and terminating on other operators' cellular network and for SMS originating from other operators and terminating on Smart's cellular network, the charge is Php0.35 per message.

Effective February 1, 2003, international calls terminating to PLDT's fixed line network have been charged a termination rate of approximately US\$0.12 per minute, an increase from the previous rate of approximately US\$0.08 per minute. Also, international calls terminating to Smart's cellular network have been charged a termination rate of approximately US\$0.16 per minute, an increase from the previous termination rate of approximately US\$0.12 per minute. In 2010, the average termination rates for PLDT and Smart were approximately US\$0.10 per minute and US\$0.13 per minute, respectively.

PLDT has continuously and actively negotiated with other legitimate Philippine Fixed and CMTS carriers for interconnection based on the guidelines being issued by the NTC or any authorized government agency. These carriers include the major fixed and mobile players in the industry with nationwide operations, PAPTELCO and other non-PAPTELCO players, both of which usually operate in selected towns in the countryside.

Direct interconnection, termination/access charges or the charges a carrier bills the other in directly accessing its network are bilaterally negotiated and agreed upon by the carriers, pursuant to NTC rules and regulations.

As an authorized Inter-Exchange Carrier, PLDT provides transit services or calls originating from one carrier and terminating to the other via PLDT's network. PLDT provides extensive transit services to PAPTELCO and non-PAPTELCO carriers, these entities virtually having no telecommunications backbone of their own. As at December 31, 2010, PAPTELCO has 47 member companies operating 122 main telephone exchanges in the countryside.

In 2010, wholesale termination rate to PLDT fixed line network remained at approximately US\$0.10 per minute while traffic to Smart via PLDT international gateway facility was rated wholesale at approximately US\$0.13 per minute. Despite the global trend to reduce wholesale international termination rates, PLDT has kept its rates at approximately above US\$0.10 level considering the cost to haul and terminate these calls to its subscribers.

**Licenses and Regulations**

***Licenses***

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

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various times between now and 2028. The CPCNs pursuant to which PLDT may provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT's CPCNs and provisional authorities have already expired, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The period of validity of some of PLDT's CPCNs, has been extended further by the NTC to November 28, 2028, coterminous with PLDT's current franchise under R.A. 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 are currently pending with the NTC. See Item 3. Key Information Risk Factors



**Table of Contents**

**Risk Relating to Us** Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes for further discussion.

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

Smart operates its cellular, international long distance and national long distance services pursuant to CPCNs, the terms of which will expire upon the expiration of its franchise. On July 22, 2002, Smart was granted separate CPCNs to operate a CMTS and an international gateway facility. On August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which will also expire upon expiration of its franchise. On February 19, 2008, Smart was granted a CPCN to establish, install, maintain, lease and operate an international private leased circuit for a term that is coterminous with the expiration of its franchise. Prior to that, Smart was permitted to engage in these activities pursuant to a provisional authority and timely filed an application for the grant of such CPCN. On September 29, 2009, Smart was granted a provisional authority to install, operate and maintain a nationwide data communications network which is valid for 18 months or up to March 29, 2011. Smart filed a motion for issuance of CPCN or extension of provisional authority on March 03, 2011, which is still pending resolution by the NTC as at March 29, 2011. On May 28, 2010, the NTC issued an order granting the extension of Smart's provisional authority to construct, install, operate and maintain a nationwide public calling office and payphone service from January 5, 2010 up to January 4, 2013.

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

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

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

begin installation and rollout of its 3G network no later than 18 months from the date of the award;

start commercial operations no later than 30 months from the date of the award; and

cover at least 80% of provincial capitals and 80% of chartered cities within five years.

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

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

On August 26, 2009, the NTC granted SBI a CPCN for the installation, operation and maintenance of the data leased channel circuit network service for a period coterminous with the life of its existing franchise. SBI is a grantee of a provisional authority for the expansion of its data leased channel circuit network service in several areas in Zamboanga Sibuguey, Sultan Kudarat, Southern Leyte, Biliran, Compostela Valley, Davao Oriental, Dinagat Island and Shariff Kabunsuan. The provisional authority is valid for 18 months from September 29, 2009 until March 29, 2011. SBI filed a motion for issuance of CPCN or extension of provisional authority on March 02, 2011. The said



motion is still pending resolution by the NTC. SBI is also a grantee of a provisional authority for the installation, operation and maintenance of international leased line service that was valid up to February 2005 and the motion for extension of which remains pending with the NTC as at the date of this annual report.

**Table of Contents**

CURE is a grantee of a 25-year congressional franchise under R.A. 9130, which expires on April 24, 2026, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines. The NTC granted CURE a provisional authority to install, operate and maintain a nationwide 3G network on January 3, 2006 valid for 18 months, which was subsequently extended for three years from January 4, 2007 until January 3, 2010. On December 3, 2009, CURE filed a motion for issuance of CPCN or extension on the provisional authority. CURE had also submitted its roll-out plan to the NTC on January 4, 2010. As at the date of this annual report, this motion is still pending with the NTC.

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

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

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

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

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

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

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

**Material Effects of Regulation on our Business**

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

PLDT, Subicel, Clarktel, Philcom, Smart, PCEV, SBI and CURE, are required to pay various permit, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 8. Financial Information Legal Proceedings NTC SRF.

The 14th Philippine Congress considered two bills that relate to the imposition of a franchise tax on telecommunications companies. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts of telephone and telegraph services in lieu of the VAT. HB No. 1560 proposed a franchise tax at the rate of 3.5% on the

**Table of Contents**

first year and 7% thereafter on gross receipts of telecommunications and broadcast companies, in lieu of the VAT. Other bills filed proposed to tax telecommunications services. Among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G, a bill that seeks to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed.

The Committee on Oversight of Congress also held discussions on the possibility of linking up the BIR and NTC with the telecommunications companies through an electronic metering device, which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

In the Upper House, Senate Bill No. 2402 proposes to establish a Health and Education Acceleration Program Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks which would be remitted to the fund for a period of five years. This tax may not be passed on to consumers. Under the proposed bill, telecommunications companies shall no longer pay for the regular income tax on their income from these transactions during the five-year period that the special gross receipts tax on text messaging is imposed. The income tax scheme for text messaging shall revert to the regular income tax for corporations after the five-year period. Moreover, the bill proposes to allow telecommunications companies to deduct 10% of the tax remitted to the fund from their other income as ordinary business expense over a period of ten years.

During the 15th Philippine Congress in 2010, Smart was requested to attend a hearing regarding HB No. 1224 or the Corporate Social Responsibility Act Bill filed by Rep. Gloria Macapagal-Arroyo and Rep. Diosdado Macapagal-Arroyo. Aside from this proposed legislation, both the Upper and Lower House have pending bills filed by various legislators concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. The PLDT Group has submitted its position papers on both matters.

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

On July 3, 2009, the NTC issued Memorandum Circular No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

On July 7, 2009, the NTC amended its rules on broadcast messaging in Memorandum Circular No. 04-07-2009, which prohibits content and/or information providers from initiating push messages. It further requires that subscribers be the party to initiate any services with public telecommunication entities and/or content providers, be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.

On July 23, 2009, the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to charge calls on a maximum six-second pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. The NTC granted Smart the provisional authority to charge new rates and implement six second pulse scheme on December 5, 2009. Smart subsequently implemented the six seconds per pulse directive by billing on a six second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart's implementation of the six seconds per pulse directive. As of March 31, 2010, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing directive. In December 2009, Smart and other CMTS providers challenged the implementation of the NTC memorandum circular before the Court of Appeals, which issued a writ of preliminary injunction preventing the NTC from implementing its six second per pulse billing directive.

On December 28, 2010, the Court of Appeals promulgated a decision finding that the NTC had no basis to impose the rates it fixed for the six second pulse and that the CMTS operators have the option to file their rate

applications anew. However, the Court ruled also that under the NTC memorandum circular, the six second pulse is the default mode and that the NTC has the power to regulate the rates of CMTS providers under Section 17 of R. A. 7925, even in the absence of ruinous competition, monopoly, cartel

**Table of Contents**

or combination thereof in restraint of free competition. The NTC, through the Office of the Solicitor General filed a motion for reconsideration of the decision. Smart was required by the Court of Appeals to file its comment.

The six second per pulse billing scheme is expected to have a negative impact on Smart's revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.

See Item 3. Key Information Risk Factors Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes for further discussion.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act, R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law became effective; or (b) the entity's first start of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. However, Smart has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. See Item 3. Key Information Risk Factors The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares for further discussion.

In 2008, in connection with the NTC's efforts to enhance competition within the telecommunications industry in the Philippines, the NTC issued Memorandum Circulars on the following:

- (a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued on October 7, 2008 and became effective on October 23, 2008; and
- (b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

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

During the last quarter of 2010, the NTC started holding public hearings on a proposed Memorandum Order concerning minimum speed of broadband internet.

**Competition**

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

**Cellular Service**

There are presently three major operating service providers, namely Smart, Globe and Digitel. Globe acquired Innove to form one operating group while Smart and Red Mobile, all being part of the PLDT Group, form another operating group. These two operating groups have an approximately 82% share of the Philippine cellular market. There are therefore effectively two large competitors in the Philippine cellular market. The third active operator, Digitel, commenced its cellular service, *Sun Cellular*, on March 29, 2003 and is estimated to have an approximately 18% share of the cellular market as at December 31, 2010. In December 2005, the NTC awarded four out of five 3G licenses to existing cellular operators Smart, Globe, Digitel and to a new entrant, CURE. The NTC has yet to award a fifth license to another operator.

**Table of Contents**

Competition in the cellular telecommunications industry has intensified with the increased availability of affordably priced handsets offering a range of new functions and the introduction by competitors of new and improved plans for postpaid subscribers, reduced rates per minute and aggressive marketing and promotional strategies. The principal bases of competition are price, including handset cost, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 10,316 cellular/mobile broadband base stations as at December 31, 2010.

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

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

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

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

In order to avail themselves of promotions and cost efficient network-to-network calling rates, cellular subscribers in the Philippines have increasingly been subscribing to the services of multiple wireless operators. As a result, the increases in 2009 and 2010 in our cellular subscriber base and the penetration rate of the wireless market in the Philippines were primarily attributable to such multiple SIM card ownership.

***Local Exchange Service***

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

There are currently four major fixed wireless landline services in the market that resemble a cellular phone service but provide the same tariff structure as a fixed line service such as the charging of monthly service fees. The earliest such service was provided by Digitel in the fourth quarter of 2005 at a fixed monthly rate of Php672. This service is provided mostly in selected areas of Southern and Northern Luzon where Digitel was lacking fixed cable facilities. Globe quickly followed suit with a similar service at a monthly rate of Php995 which bundled a wireless landline and broadband internet connection of up to 384 kbps. This service is offered in limited areas of Metropolitan Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

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

**Table of Contents**

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

***International Long Distance Service***

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

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

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

***National Long Distance Service***

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

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

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

***Data and Other Network Services***

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



## **Table of Contents**

### **Environmental Matters**

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

### **Intellectual Property Rights**

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

### **Properties**

We own four office buildings located in Makati City and own and operate 203 exchanges nationwide, of which 46 are located in the Metropolitan Manila area. The remaining 157 exchanges are located in cities and small municipalities outside Metropolitan Manila area. We also own radio transmitting and receiving equipment used for international and domestic communications. As at December 31, 2010, we had 6,037 cellular cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations.

As at December 31, 2010, our principal properties, excluding property under construction, consisted of the following, based on net book values:

69% consisted of cable, wire and cellular facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;

15% consisted of central office equipment, including international gateway facilities, pure national toll exchanges and combined local and toll exchanges;

10% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;

5% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers premises; and

1% consisted of other work equipment.

For more information on these properties, see Note 9 Property, Plant and Equipment to the accompanying consolidated financial statements in Item 18.

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

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

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

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipment. For more information on the obligations relating to these properties and long-term obligations, see Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

For 2011, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2011 budget for consolidated capital expenditures is approximately Php34.4 billion, of which approximately Php19.5 billion is budgeted to be spent by Smart, approximately Php13.5 billion is budgeted to be spent by PLDT



**Table of Contents**

and the balance represents the budgeted capital spending of our other subsidiaries. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. Smart's capital spending is focused on expanding and upgrading its transmission network from the backbone up to last mile facilities to meet increased demand for cellular and broadband services in a highly-competitive playing field. Smart's 2011 capital investments are driven by rapidly-evolving technologies in both voice- and data-centric environments, improvement of quality and subscriber experience, expansion of capacity and achieving operational and cost efficiencies with its accelerated network modernization program. The aggressive rollout, expansion and modernization programs will likewise prepare Smart for the projected massive growth and demand in broadband business.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements (and the related notes) as at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements as a result of particular factors such as those set forth under*

*Forward-Looking Statements and Item 3. Key Information Risk Factors and elsewhere in this report. Our consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. For convenience, certain Philippine peso financial information in the following discussions has been translated to U.S. dollars at the exchange rate at December 31, 2010 of Php43.81 to US\$1.00, as quoted through the Philippine Dealing System.*

**Overview**

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

*Wireless* wireless telecommunications services provided through our cellular service providers namely, Smart, PCEV (on August 17, 2009, Smart acquired the cellular business of PCEV, which is formerly known as Pilipino Telephone Corporation) and CURE; SBI, BOW, Airborne Access Corporation and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;

*Fixed Line* fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries ClarkTel, SubicTel, Philcom and subsidiaries, Maratel, SBI, PDSI, BCC and PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

*ICT* information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT and BayanTrade Group; knowledge processing solutions provided by the SPi Group; customer relationship management provided by SPi CRM, (on April 8, 2010, SPi CRM, Parlance and Vocativ were merged wherein SPi CRM became the surviving entity); internet access and online gaming services provided by Infocom, Digital Paradise, netGames and Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

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



**Table of Contents**

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

In addition, our results of operations and financial position are with increasing significance affected by fluctuations of the Philippine peso against the U.S. dollar. Since a substantial portion of our indebtedness is denominated in U.S. dollars, a depreciation or appreciation of the Philippine peso against the U.S. dollar as at the end of the most recent fiscal year compared to the end of the previous fiscal year may result in our recognition of significant foreign exchange losses or gains, respectively. For example, the Philippine peso appreciated against the U.S. dollar from Php46.43 as at December 31, 2009 to Php43.81 as at December 31, 2010, as a result of which we recognized in 2010 foreign exchange gains in the amount of Php1,807 million, representing an increase of Php898 million from Php909 million foreign exchange gains recognized in 2009. Moreover, since approximately 26% of our revenues are either denominated in U.S. dollars or linked to the U.S. dollar, a depreciation or appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increases or decreases our revenues in Philippine peso terms and increases or decreases our cash flow from operations, respectively. For example, in 2010, the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.12 in 2010 from Php47.64 in 2009 decreased our U.S. dollar and U.S. dollar-linked revenues in Philippine peso terms. Furthermore, fluctuations of the Philippine peso against the U.S. dollar resulted in gains or losses on our derivative financial instruments, which with increasing significance affect our results of operations and financial position. For example, we recognized net losses on derivative financial instruments of Php1,741 million in 2010 from Php1,006 million in 2009. Please see Item 3. Key Information Risk Factors Our result of operations and financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar .

**Management's Financial Review**

As discussed in Item 3. Key Information Performance Indicators , we use our adjusted EBITDA and core income to assess our operating performance; a reconciliation of our consolidated adjusted EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2008, 2009 and 2010 is set forth below.

The following table shows the reconciliation of our consolidated adjusted EBITDA to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
		(in million pesos)	
Consolidated adjusted EBITDA	83,717	86,194	87,996
Amortization of intangible assets	(388)	(368)	(377)
Depreciation and amortization	(26,277)	(25,607)	(24,709)
Asset impairment:			
Investments in associates and joint ventures	(78)		(282)
Property, plant and equipment	(120)	(634)	(104)
Goodwill and intangible assets	(1,243)	(379)	(2,450)
Prepayments and others	(55)	(1,324)	(23)
Consolidated operating profit for the year	55,556	57,882	60,051
Foreign exchange gains (losses) net	1,807	909	(6,170)
Equity share in net earnings (losses) of associates and joint ventures	1,408	2	(176)
Interest income	1,200	1,539	1,668
Gains (losses) on derivative financial instruments net	(1,741)	(1,006)	3,115
Financing costs net	(6,698)	(6,556)	(6,104)
Other income	2,153	2,069	1,665
Consolidated income before income tax	53,685	54,839	54,049
Provision for income tax	13,426	14,744	19,073

Consolidated net income for the year	40,259	40,095	34,976
--------------------------------------	--------	--------	--------

**Table of Contents**

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	(in million pesos)		
Consolidated core income for the year	42,028	41,138	38,214
Foreign exchange gains (losses) net	1,819	908	(6,170)
Core income adjustment on equity share in net earnings of associates and joint ventures	(699)	(517)	
Gains (losses) on derivative financial instruments net, excluding hedge cost	(1,307)	(407)	3,934
Asset impairment on noncurrent assets	(1,492)	(1,948)	(2,486)
Net tax effect of aforementioned adjustments	(132)	607	825
Net income for the year attributable to equity holders of PLDT	40,217	39,781	34,317
Net income for the year attributable to non-controlling interests	42	314	659
Consolidated net income for the year	40,259	40,095	34,976

**Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

**Judgments**

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

*Determination of functional currency*

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso except for SMHC, SMI, TSI, BOW, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka, which is the U.S. dollar; and Singapore dollar for SCH, SGP, 3rd Brand, and certain subsidiaries of BayanTrade.

*Leases*

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *IAS 17, Leases*, which requires us to make judgments and estimates of transfer of risk and rewards of ownership of the leased properties. Total lease expense arising from operating leases amounted to Php3,970 million, Php4,055 million and Php3,656 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total finance lease obligations amounted to Php43 million and Php64 million as at December 31, 2010 and 2009, respectively. See Note 20 Interest-bearing Financial Liabilities, Note 26 Contractual Obligations and Commercial Commitments and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

*Significant influence in Manila Electric Company, or Meralco, on which PCEV has less than 20% ownership*

Under *IAS 28, Investments in Associates*, significant influence must be present and currently exercisable over an investee to account for any interest in that investee as investment in an associate and carried at equity method of accounting. If an investor holds, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.



**Table of Contents**

On March 30, 2010, following the transfer of PCEV's Meralco shares to Beacon, PCEV's direct ownership in Meralco was reduced to approximately 6% from approximately 20%. Beacon is a jointly controlled entity of PCEV and MPIC for the purpose of consolidating the ownership interest of PCEV and MPIC in Meralco. The decrease in PCEV's direct ownership in Meralco, however, did not result to a change in PCEV's representation to the Meralco Board of Directors. Prior to the transfer of approximately 14% interest in Meralco to Beacon, PCEV had three out of the 11 Board of Directors seats in Meralco. Based on the Omnibus Agreement, or OA, among PCEV, MPIC and Beacon, both PCEV and MPIC agreed that an equal number of Meralco nominee directors shall be chosen from each list of nominees provided by PCEV and MPIC. If the number of Meralco Nominee Directors for Beacon is an odd number, the remaining one Meralco Nominee Director shall be chosen alternatively first from the list of nominees provided by MPIC and then from the list provided by PCEV. The total Beacon ownership in Meralco entitles it to nominate three Board of Directors seats, two of which are the Chairman of the Board and the President of PCEV. For Meralco Board of Directors, committees and officers, these are jointly nominated from a list of nominees mutually agreed by MPIC and PCEV and vote affirmatively for the appointment of individuals to different Board of Directors committees and officers that Beacon is entitled to under the current MPIC-PCEV shareholders agreement. The Board of Directors members, committees and Meralco officers, which are the operating decision makers of Meralco, are represented by MPIC and PCEV through nominations. On this basis, PCEV has retained significant influence over Meralco, despite having less than 20% ownership interest, by virtue of PCEV's 6% direct ownership interest together with its indirect interest of about 17.5% through PCEV's investment in Beacon. See Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

***Estimates and Assumptions***

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed as follows:

***Asset impairment***

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under IFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) amounted to Php2,438 million, Php5,061 million and Php4,180 million for the years ended December 31, 2010, 2009 and 2008, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses and Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

The carrying values of our property, plant and equipment, investments in associates and joint ventures, goodwill and intangible assets, trade and other receivables, inventories and supplies and prepayments are separately disclosed in Notes 9, 10, 14, 16, 17 and 18 to the accompanying consolidated financial statements in Item 18, respectively.

**Table of Contents***Estimating useful lives of property, plant and equipment*

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed at least at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded expenses and decrease our noncurrent assets.

The total depreciation and amortization of property, plant and equipment amounted to Php26,277 million, Php25,607 million and Php24,709 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php163,184 million and Php161,256 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information and Note 9 Property, Plant and Equipment to the accompanying consolidated financial statements in Item 18.

*Determining the fair value of investment properties*

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is annually performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php6 million, Php352 million and Php59 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of our investment properties amounted to Php1,560 million and Php1,210 million as at December 31, 2010 and 2009, respectively. See Note 12 Investment Properties to the accompanying consolidated financial statements in Item 18.

*Goodwill and intangible assets*

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method starting January 1, 2009 and purchase method for prior year acquisitions, which both require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Intangible assets acquired from business combination with finite lives are amortized over the useful economic life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets amounted to Php388 million, Php368 million and Php377 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of goodwill and intangible assets amounted to Php11,485 million and Php13,024 million as at December 31, 2010 and 2009, respectively. See Note 13 Business Combinations and Acquisition of Non-Controlling Interests and Note 14 Goodwill and Intangible Assets to the accompanying consolidated financial statements in Item 18.

**Table of Contents***Recognition of deferred income tax assets and liabilities*

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart's and Wolfpac's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php1,477 million and Php1,236 million as at December 31, 2010 and 2009, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php2,805 million and Php3,296 million as at December 31, 2010 and 2009, respectively. Total consolidated provision for deferred income tax amounted to Php1,198 million, Php656 million and Php2,715 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total consolidated net deferred income tax assets amounted to Php6,110 million and Php7,721 million as at December 31, 2010 and 2009, respectively, while total consolidated net deferred income tax liabilities amounted to Php1,099 million and Php1,321 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information and Note 7 Income Taxes to the accompanying consolidated financial statements in Item 18.

*Estimating allowance for doubtful accounts*

If we assessed that there is an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total asset impairment provision for trade and other receivables recognized in our consolidated income statements amounted to Php834 million, Php2,335 million and Php1,079 million for the years ended December 31, 2010, 2009 and 2008, respectively. Trade and other receivables, net of asset impairment, amounted to Php16,428 million and Php14,729 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses, Note 16 Trade and Other Receivables and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

*Estimating net realizable value of inventories and supplies*

We write down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php108 million, Php389 million and Php242 million for the years ended December 31, 2010, 2009 and 2008, respectively. The carrying values of inventories and

58

---

**Table of Contents**

supplies amounted to Php2,219 million and Php2,165 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses and Note 17 Inventories and Supplies to the accompanying consolidated financial statements in Item 18.

*Share-based payment transactions*

Our 2007 to 2009 LTIP grants SARs to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement. The estimates and assumptions are described in Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18 and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million for the years ended December 31, 2009 and 2008, respectively. The outstanding 2007 to 2009 LTIP liability of Php4,582 million as at December 31, 2009 was paid in full in April 2010. See Note 5 Income and Expenses, Note 23 Accrued Expenses and Other Current Liabilities and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18 for further discussion.

*Estimation of pension benefit costs and other employee benefits*

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, expected rates of return on plan assets, rates of compensation increases and mortality rates. See Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed at year-end.

Total consolidated pension benefit costs amounted to Php236 million, Php1,306 million and Php725 million for the years ended December 31, 2010, 2009 and 2008, respectively. Unrecognized net actuarial gains amounted to Php479 million as at December 31, 2010 and unrecognized net actuarial losses amounted to Php2,474 million as at December 31, 2009. The prepaid benefit costs amounted to Php5,333 million and Php5,414 million as at December 31, 2010 and 2009, respectively. The accrued benefit costs amounted to Php415 million and Php359 million as at December 31, 2010 and 2009, respectively. See Note 5 Income and Expenses, Note 18 Prepayments and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for other employee benefits. All assumptions are reviewed on a monthly basis. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at and for the year ended December 31, 2010. See Note 5 Income and Expenses and Note 25 Shared-based Payments

and Employee Benefits to the accompanying consolidated financial statements in Item 18.

*Provision for asset retirement obligations*

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per

**Table of Contents**

square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,344 million and Php1,204 million as at December 31, 2010 and 2009, respectively. See Note 21 Deferred Credits and Other Noncurrent Liabilities to the accompanying consolidated financial statements in Item 18.

*Provision for legal contingencies and tax assessments*

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims has been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

*Revenue recognition*

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn-rate analysis.

*Determination of fair values of financial assets and liabilities*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities amounted to Php55,538 million and Php167,396 million as at December 31, 2010, respectively, while the total fair values of financial assets and liabilities amounted to Php58,225 million and Php165,063 million as at December 31, 2009, respectively. See Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

**Table of Contents****New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2010**

Please see Note 2 Summary of Significant Accounting Policies to the accompanying consolidated financial statements in Item 18 for a discussion of new accounting standards that will become effective subsequent to December 31, 2010 and their anticipated impact on our consolidated financial statements for the current and future periods.

**Results of Operations**

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), adjusted EBITDA, adjusted EBITDA margin and core income for the years ended December 31, 2010, 2009 and 2008. Most of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Wireless	Fixed Line	ICT (in millions)	Inter-segment Transactions	Consolidated
<b>For the year ended December 31, 2010</b>					
Revenues	Php95,187	Php48,951	Php11,358	Php(11,037)	Php144,459
Expenses	49,632	38,745	11,944	(11,418)	88,903
Other income (expenses)	1,235	(2,946)	221	(381)	(1,871)
Income (loss) before income tax	46,790	7,260	(365)		53,685
Provision for (benefit from) income tax	11,414	2,050	(38)		13,426
Net income (loss) for the year/ Segment profit (loss) for the year	35,376	5,210	(327)		40,259
Adjusted EBITDA for the year	58,945	22,668	1,723	381	83,717
Adjusted EBITDA margin for the year <sup>(1)</sup>	63%	47%	16%		59%
Core income for the year	35,418	5,580	1,030		42,028
<b>For the year ended December 31, 2009</b>					
Revenues	97,524	51,373	11,549	(12,453)	147,993
Expenses	52,432	39,081	11,289	(12,691)	90,111
Other income (expenses)	1,149	(4,170)	216	(238)	(3,043)
Income before income tax	46,241	8,122	476		54,839
Provision for (benefit from) income tax	12,514	2,258	(28)		14,744
Net income for the year/ Segment profit for the year	33,727	5,864	504		40,095
Adjusted EBITDA for the year	59,411	25,215	1,330	238	86,194
Adjusted EBITDA margin for the year <sup>(1)</sup>	62%	49%	12%		59%
Core income for the year	33,026	7,502	613	(3)	41,138
<b>For the year ended December 31, 2008</b>					
Revenues	95,852	49,686	10,983	(10,684)	145,837
Expenses	47,589	35,733	13,267	(10,803)	85,786



Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Other expenses	(2,640)	(3,173)	(1)	(188)	(6,002)
Income (loss) before income tax	45,623	10,780	(2,285)	(69)	54,049
Provision for (benefit from) income tax	16,124	3,048	(99)		19,073
Net income for the year/ Segment profit (loss) for the year	29,499	7,732	(2,186)	(69)	34,976
Adjusted EBITDA for the year	60,967	25,854	1,056	119	87,996
Adjusted EBITDA margin for the year <sup>(1)</sup>	65%	52%	10%		62%
Core income for the year	30,250	7,890	138	(64)	38,214

<sup>(1)</sup> Adjusted EBITDA margin is derived as a percentage of service revenues.

**Table of Contents****2010 Compared to 2009  
On a Consolidated Basis****Revenues**

Our revenues for 2010 decreased by Php3,534 million, or 2%, to Php144,459 million from Php147,993 million in 2009. This decrease was primarily due to a decline in our service revenues by Php3,325 million as a result of decreases in cellular and satellite revenues from our wireless business, as well as lower revenues from our fixed line business national and international long distance services.

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 95,187	66	Php 97,524	66	Php (2,337)	(2)
Fixed line	48,951	34	51,373	34	(2,422)	(5)
Information and communications technology	11,358	8	11,549	8	(191)	(2)
Inter-segment transactions	(11,037)	(8)	(12,453)	(8)	1,416	(11)
Consolidated	Php 144,459	100	Php 147,993	100	Php (3,534)	(2)

**Expenses**

Our expenses in 2010 decreased by Php1,208 million, or 1%, to Php88,903 million from Php90,111 million in 2009 largely as a result of decreases in asset impairment, cost of sales, selling and promotions, taxes and licenses, rent, and communication, training and travel expenses, which were partly offset by higher compensation and employee benefits, repairs and maintenance, depreciation and amortization, and professional and other contracted services.

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 49,632	56	Php 52,432	58	Php (2,800)	(5)
Fixed line	38,745	44	39,081	43	(336)	(1)
Information and communications technology	11,944	13	11,289	13	655	6
Inter-segment transactions	(11,418)	(13)	(12,691)	(14)	1,273	10
Consolidated	Php 88,903	100	Php 90,111	100	Php (1,208)	(1)

**Other Expenses**

Consolidated other expenses net in 2010 amounted to Php 1,871 million, a decrease of Php1,172 million, or 39%, from Php3,043 million in 2009 primarily due to the combined effects of the following: (i) net increase in equity share in net earnings of associates and joint ventures of Php1,406 million, which was mainly due to PCEV's equity share in net earnings of Manila Electric Company, or Meralco, of which 68.8 million Meralco shares are held directly by PCEV and an additional 317.8 million Meralco shares are held through Beacon, in which PCEV acquired a 50% equity interest effective March 31, 2010 in exchange for transferring 154.2 million Meralco shares to Beacon; (ii) higher net foreign exchange gains by Php898 million in 2010 as compared with 2009 due to the revaluation of

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

**Table of Contents**

reversal of prior year's provision by our fixed line business, partially offset by lower gain on fixed assets disposal by our fixed line business.

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 1,235	(66)	Php 1,149	(38)	Php 86	7
Fixed line	(2,946)	158	(4,170)	137	1,224	(29)
Information and communications technology	221	(12)	216	(7)	5	2
Inter-segment transactions	(381)	20	(238)	8	(143)	60
Consolidated	Php (1,871)	100	Php (3,043)	100	Php 1,172	(39)

**Provision for Income Tax**

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

**Net Income (Loss)**

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

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 35,376	88	Php 33,727	84	Php 1,649	5
Fixed line	5,210	13	5,864	15	(654)	(11)
Information and communications technology	(327)	(1)	504	1	(831)	(165)
Consolidated	Php 40,259	100	Php 40,095	100	Php 164	

**Adjusted EBITDA**

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

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 58,945	70	Php 59,411	69	Php (466)	(1)

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Fixed line	22,668	27	25,215	29	(2,547)	(10)
Information and communications technology	1,723	2	1,330	2	393	30
Inter-segment transactions	381	1	238		143	60
Consolidated	Php 83,717	100	Php 86,194	100	Php (2,477)	(3)

***Core Income***

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

**Table of Contents**

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 35,418	84	Php 33,026	80	Php 2,392	7
Fixed line	5,580	13	7,502	18	(1,922)	(26)
Information and communications technology	1,030	3	613	2	417	68
Inter-segment transactions			(3)		3	100
Consolidated	Php 42,028	100	Php 41,138	100	Php 890	2

A reconciliation of our consolidated adjusted EBITDA and our consolidated core income to our consolidated net income is presented in Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18.

**On a Business Segment Basis****Wireless****Revenues**

Revenues generated from our wireless business amounted to Php95,187 million in 2010, a decrease of Php2,337 million, or 2%, from Php97,524 million in 2009. The following table summarizes our total revenues from our wireless business for the years ended December 31, 2010 and 2009 by service segment:

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Service Revenues:						
Cellular	Php 86,399	91	Php 88,410	91	Php (2,011)	(2)
Wireless broadband, satellite and others						
Wireless broadband	6,286	7	5,383	5	903	17
Satellite and others	1,145	1	2,036	2	(891)	(44)
	93,830	99	95,829	98	(1,999)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,357	1	1,695	2	(338)	(20)
Total Wireless Revenues	Php 95,187	100	Php 97,524	100	Php (2,337)	(2)

**Service Revenues**

Our wireless service revenues decreased by Php1,999 million, or 2%, to Php93,830 million in 2010 as compared with Php95,829 million in 2009, mainly as a result of lower revenues from our cellular services, and satellite and other revenues, partially offset by the increase in our wireless broadband revenues. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international text messaging services because of the

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

**Table of Contents***Cellular Service*

Our cellular service revenues in 2010 amounted to Php86,399 million, a decrease of Php2,011 million, or 2%, from Php88,410 million in 2009. Cellular service revenues accounted for 92% of our wireless service revenues in each of 2010 and 2009.

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

	2010	2009	Increase (Decrease) Amount	%
	(in millions)			
Cellular service revenues	Php86,399	Php88,410	Php (2,011)	(2)
<i>By service type</i>				
Prepaid	83,779	85,922	(2,143)	(2)
Postpaid	77,231	79,284	(2,053)	(3)
	6,548	6,638	(90)	(1)
<i>By component</i>				
Voice	83,779	85,922	(2,143)	(2)
Data	42,250	38,850	3,400	9
	41,529	47,072	(5,543)	(12)
<i>Others<sup>(1)</sup></i>	2,620	2,488	132	5

<sup>(1)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLP services, a small number of leased line contracts, and revenues from Chikka, Wolfpac and other Smart subsidiaries.

	2010	2009	Increase (Decrease) Amount	%
Cellular subscriber base	45,636,008	41,328,641	4,307,367	10
Prepaid	45,214,433	40,893,098	4,321,335	11
<i>Smart Buddy</i>	25,293,443	23,762,814	1,530,629	6
<i>Talk N Text</i>	18,967,381	17,050,713	1,916,668	11
<i>Red Mobile</i>	953,609	79,571	874,038	1,098
Postpaid	421,575	435,543	(13,968)	(3)
Systemwide traffic volumes (in millions)				
Calls (in minutes)	26,136	16,305	9,831	60
Domestic	23,110	13,371	9,739	73
<i>Inbound</i>	1,438	1,495	(57)	(4)
<i>Outbound</i>	21,672	11,876	9,796	82
International	3,026	2,934	92	3
<i>Inbound</i>	2,817	2,738	79	3
<i>Outbound</i>	209	196	13	7
SMS/Data count (in hits)	341,113	287,921	53,192	18
Text messages	339,530	286,294	53,236	19
Domestic	339,011	285,847	53,164	19
<i>Inbound</i>	8,058	8,289	(231)	(3)
<i>Outbound</i>	330,953	277,558	53,395	19



Bucket-Priced	312,634	258,190	54,444	21
Standard	18,319	19,368	(1,049)	(5)
International	519	447	72	16
<i>Inbound</i>	<i>211</i>	<i>136</i>	<i>75</i>	<i>55</i>
<i>Outbound</i>	<i>308</i>	<i>311</i>	<i>(3)</i>	<i>(1)</i>
Value-Added Services	1,557	1,608	(51)	(3)
Financial Services	26	19	7	37

Revenues attributable to our prepaid cellular services amounted to Php77,231 million in 2010, a decrease of Php2,053 million, or 3%, as compared with Php79,284 million earned in 2009. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of 2010 and 2009. Revenues attributable to Smart s postpaid cellular service amounted to Php6,548 million in 2010, a decrease of Php90 million, or 1%, as compared with Php6,638 million earned in 2009, and accounted for 8% of cellular voice and data revenues in each of 2010 and 2009.

**Table of Contents***Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php3,400 million, or 9%, to Php42,250 million in 2010 from Php38,850 million in 2009 primarily due to an increase in domestic call revenues, partially offset by a decrease in international call revenues. Cellular voice services accounted for 49% of our cellular service revenues in 2010 as compared with 44% in 2009.

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

	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	
		<b>(in millions)</b>	<b>Amount</b>	<b>%</b>
Voice services:				
<i>Domestic</i>				
Inbound	Php 5,203	Php 5,095	Php 108	2
Outbound	20,632	16,534	4,098	25
	25,835	21,629	4,206	19
<i>International</i>				
Inbound	14,698	15,287	(589)	(4)
Outbound	1,717	1,934	(217)	(11)
	16,415	17,221	(806)	(5)
<b>Total</b>	<b>Php 42,250</b>	<b>Php 38,850</b>	<b>Php 3,400</b>	<b>9</b>

Domestic voice service revenues increased by Php4,206 million, or 19%, to Php25,835 million in 2010 from Php21,629 million in 2009 primarily due to an increase in domestic outbound call revenues by Php4,098 million, or 25%, to Php20,632 million in 2010 from Php16,534 million in 2009 mainly due to increased patronage of unlimited voice offerings, complemented by an increase in the revenue contribution of our inbound domestic voice service by Php108 million, or 2%, to Php5,203 million in 2010 from Php5,095 million in 2009 as a result of an increase in revenues from other domestic carriers. Outbound domestic call volumes increased by 9,796 million minutes, or 82%, to 21,672 million minutes in 2010 from 11,876 million minutes in 2009. The increase in inbound domestic call volumes from other domestic carriers was offset by the decrease in call volumes from PLDT's regular and fixed rate call packages, which resulted in the overall decrease in our inbound domestic call volumes by 57 million minutes, or 4%, to 1,438 million minutes in 2010 from 1,495 million minutes in 2009. The aggregate increase in volumes was mainly due to the higher call volumes from unlimited voice offerings.

International voice service revenues decreased by Php806 million, or 5%, to Php16,415 million in 2010 from Php17,221 million in 2009 primarily due to a decline in inbound international voice service revenues by Php589 million, or 4%, to Php14,698 million in 2010 from Php15,287 million in 2009 and due to a decline in outbound international voice service revenues by Php217 million, or 11%, to Php1,717 million in 2010 from Php1,934 million in 2009. The decline in international voice service revenues was due to the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009. On the other hand, international inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in our

cellular subscriber base.

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

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

*Smartalk 500* which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

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

**Table of Contents**

and Php0.20 per SMS, respectively, from 5:01 p.m. to 9:59 p.m.

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

*Red Mobile Unlimited* offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers using a secondary network powered by Smart.

**Data Services**

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php5,543 million, or 12%, to Php41,529 million in 2010 from Php47,072 million in 2009. Cellular data services accounted for 48% and 53% of our cellular service revenues in 2010 and 2009, respectively.

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

	2010	2009	Increase (Decrease) Amount	%
	(in millions)			
Text messaging				
Domestic	Php 37,478	Php 42,905	Php (5,427)	(13)
<i>Bucket-Priced</i>	23,138	26,797	(3,659)	(14)
<i>Standard</i>	14,340	16,108	(1,768)	(11)
International	1,423	1,668	(245)	(15)
	38,901	44,573	(5,672)	(13)
Value-added services				
Standard <sup>(1)</sup>	1,012	1,057	(45)	(4)
Rich Media <sup>(2)</sup>	1,083	998	85	9
<i>Pasa Load</i> <sup>(3)</sup>	493	413	80	19
	2,588	2,468	120	5
Financial services				
<i>Smart Money</i>	34	27	7	26
Mobile Banking	6	4	2	50
	40	31	9	29
Total	Php 41,529	Php 47,072	Php (5,543)	(12)

<sup>(1)</sup> Includes standard services such as info-on-demand, ringtone and logo downloads, etc.

<sup>(2)</sup> Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.

(3) *A service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers.*

Text messaging-related services contributed revenues of Php38,901 million in 2010, a decrease of Php5,672 million, or 13%, as compared with Php44,573 million in 2009, and accounted for 94% and 95% of our total cellular data revenues in 2010 and 2009, respectively. The decrease in revenues from text messaging-related services resulted mainly from the continued decline in SMS yield as a result of aggressive SMS pricing offers and the increased number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards. Other factors that contributed to this decline in revenues were the prescribed extension of load validity periods and cheaper alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php23,138 million in 2010, a decrease of Php3,659 million, or 14%, as compared with Php26,797 million in 2009. Likewise, standard text messaging revenues decreased by Php1,768 million, or 11%, to Php14,340 million in 2010 from Php16,108 million in 2009. The decrease in international text messaging revenues was mainly due to the decline in SMS yield as a result of the bucket offers as well as the increase in the average roaming SMS settlement cost.

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

**Table of Contents**

VAS contributed revenues of Php2,588 million in 2010, an increase of Php120 million, or 5%, as compared with Php2,468 million in 2009, primarily due to an increase in the rich media VAS, particularly mobile internet browsing, which increased by Php195 million, or 37%, to Php725 million in 2010 from Php530 million in 2009, and *Pasa Load*, partially offset by lower usage of standard VAS.

*Subscriber Base, ARPU and Churn Rates*

As at December 31, 2010, Smart, including *Talk N Text* and *Red Mobile* subscribers totaled 45,636,008, an increase of 4,307,367, or 10%, over their combined cellular subscriber base of 41,328,641 as at December 31, 2009. Our cellular prepaid subscriber base grew by 11% to 45,214,433 as at December 31, 2010 from 40,893,098 as at December 31, 2009, while our cellular postpaid subscriber base decreased by 13,968, or 3%, to 421,575 as at December 31, 2010 from 435,543 as at December 31, 2009. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2010 and 2009.

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

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

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

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

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

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

The average monthly churn rate for Smart's postpaid subscribers is 2.4% and 1.9% for 2010 and 2009, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within

30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

**Table of Contents**

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

	Gross <sup>(1)</sup>		Decrease		Net <sup>(2)</sup>		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Buddy	Php 220	Php 261	Php (41)	(16)	Php 174	Php 207	Php(33)	(16)
Talk N Text	139	161	(22)	(14)	115	133	(18)	(14)
Red Mobile	11	20	(9)	(45)	9	13	(4)	(31)
Prepaid Blended <sup>(3)</sup>	183	218	(35)	(16)	147	175	(28)	(16)
Postpaid Smart	1,678	1,817	(139)	(8)	1,257	1,313	(56)	(4)
Prepaid and Postpaid Blended <sup>(4)</sup>	198	235	(37)	(16)	158	188	(30)	(16)

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

<sup>(2)</sup> Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.

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

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

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2010 was Php183, a decrease of 16%, as compared with Php218 in 2009. The decrease was primarily due to a decline in the average outbound domestic text messaging revenue per subscriber, as well as a drop in the average inbound international and domestic voice revenue per subscriber in 2010 as compared with the same period in 2009. On a net basis, prepaid blended average monthly ARPU in 2010 was Php147, a decrease of 16%, as compared with Php175 in 2009.

Gross average monthly ARPU for postpaid subscribers decreased by 8% to Php1,678 and net average monthly ARPU also decreased by 4% to Php1,257 in 2010 as compared with Php1,817 and Php1,313 in 2009, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php198 in 2010, a decrease of 16%, as compared with Php235 in 2009. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 16% to Php158 in 2010 from Php188 in 2009.

Our average monthly prepaid and postpaid ARPUs per quarter in 2010 and 2009 were as follows:

	Smart Buddy		Prepaid Talk N Text		Red Mobile		Postpaid Smart	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<b>2010</b>								
First Quarter	Php232	Php184	Php140	Php115	Php11	Php8	Php1,686	Php1,286
Second Quarter	224	179	141	116	4	3	1,665	1,257
Third Quarter	207	163	135	112	6	5	1,661	1,229
Fourth Quarter	215	171	140	116	22	19	1,702	1,256
<b>2009</b>								
First Quarter	272	216	176	144	25	14	1,863	1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278



Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304

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

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

*Wireless Broadband, Satellite and Other Services*

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

*Wireless Broadband*

Revenues from our wireless broadband services increased by Php903 million, or 17%, to Php6,286 million in 2010 from Php5,383 million in 2009, primarily due to the growth in wireless broadband subscribers.

**Table of Contents**

SBI offers a number of wireless broadband services and had a total of 1,355,977 subscribers as at December 31, 2010, an increase of 318,257 subscribers, or 31%, as compared with 1,037,720 subscribers as at December 31, 2009. Our postpaid wireless broadband subscriber base decreased by 5,280 subscribers, or 1%, to 430,757 subscribers as at December 31, 2010 from 436,037 subscribers as at December 31, 2009, while our prepaid wireless broadband subscriber base increased by 323,537 subscribers, or 54%, to 925,220 subscribers as at December 31, 2010 from 601,683 subscribers as at December 31, 2009.

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

SBI offers mobile internet access through *Smart Bro Plug-It*, a wireless modem which provides instant connectivity in places where there is Smart network coverage. *Smart Bro Plug-It* is available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf100* and *Unli Surf50* for *Smart Bro Plug-It Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

*Smart Bro WiMAX* service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* was initially offered at Plan 999 for unlimited broadband usage with a burst speed of up to 1 Mbps. Additional unlimited broadband packages are also available under Plan 799 and Plan 1995 with speeds of up to 512 kbps and up to 2 Mbps, respectively.

***Satellite and Other Services***

Revenues from our satellite and other services decreased by Php891 million, or 44%, to Php1,145 million in 2010 from Php2,036 million in 2009, primarily due to the lower satellite transponder rental revenues as a result of the sale of transponders by Mabuhay Satellite in 2009 and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

***Non-Service Revenues***

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php338 million, or 20%, to Php1,357 million in 2010 as compared with Php1,695 million in 2009 primarily due to the lower combined average retail price of cellular phonekits and SIM-packs, as well as broadband data modems.

***Expenses***

Expenses associated with our wireless business in 2010 amounted to Php49,632 million, a decrease of Php2,800 million, or 5%, from Php52,432 million in 2009. A significant portion of this decrease was attributable to lower expenses related to rent, asset impairment, cost of sales, taxes and licenses, and selling and promotions, partially offset by the higher expenses related to repairs and maintenance, compensation and employee benefits, professional and other contracted services, and insurance and security services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 54% in 2010 and 2009, respectively.

Cellular business expenses accounted for 83% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 17% of our wireless business expenses in 2010 as compared with 85% and 15%, respectively, in 2009.

**Table of Contents**

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Depreciation and amortization	Php 13,243	27	Php 13,237	25	Php 6	
Rent	9,038	18	10,553	20	(1,515)	(14)
Compensation and employee benefits <sup>(1)</sup>	6,385	13	6,059	12	326	5
Repairs and maintenance	5,058	10	4,340	8	718	17
Selling and promotions	3,809	8	4,051	8	(242)	(6)
Cost of sales	3,587	7	4,363	8	(776)	(18)
Professional and other contracted services	3,113	6	2,904	6	209	7
Taxes and licenses	1,683	3	2,022	4	(339)	(17)
Communication, training and travel	948	2	972	2	(24)	(2)
Insurance and security services	831	2	781	1	50	6
Asset impairment	824	2	2,026	4	(1,202)	(59)
Amortization of intangible assets	134		126		8	6
Other expenses	979	2	998	2	(19)	(2)
<b>Total</b>	<b>Php 49,632</b>	<b>100</b>	<b>Php 52,432</b>	<b>100</b>	<b>Php (2,800)</b>	<b>(5)</b>

<sup>(1)</sup> Includes salaries and employee benefits, long-term incentive plan, or LTIP, pension and manpower rightsizing program, or MRP, costs.

Depreciation and amortization charges increased by Php6 million to Php13,243 million in 2010 principally due to an increase in depreciation on the growing asset base of 3G and 2G networks.

Rent expenses decreased by Php1,515 million, or 14%, to Php9,038 million primarily due to decrease in domestic leased circuits partially offset by the increase in cell site rental charges as a result of an increase in the number of cell sites. In 2010, we had 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations, as compared with 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations in 2009.

Compensation and employee benefits expenses increased by Php326 million, or 5%, to Php6,385 million primarily due to higher MRP costs and higher salaries and employee benefits as a result of merit-based increases, partially offset by the lower provision for LTIP and pension benefits. Employee headcount of Smart and its subsidiaries decreased to 5,165 in 2010 as compared with 5,454 in 2009.

Repairs and maintenance expenses increased by Php718 million, or 17%, to Php5,058 million mainly due to an increase in cellular network facilities and software maintenance expenses, higher site electricity cost and higher fuel costs for power generation, partly offset by lower maintenance charges for computer hardware and broadband network facilities.

Selling and promotion expenses decreased by Php242 million, or 6%, to Php3,809 million primarily due to lower spending on advertising and promotional campaigns and commission expenses.

Cost of sales decreased by Php776 million, or 18%, to Php3,587 million primarily due to the lower combined average cost of cellular phonekits and SIM-packs, the lower average cost of cellular retention packages and the lower average cost of broadband modems.

Professional and other contracted service fees increased by Php209 million, or 7%, to Php3,113 million primarily due to the increase in consultancy fees, management fees, corporate membership fees, outsourced service fees and other professional fees, partly offset by the lower contracted service fees, customer relationship management service fees and technical service fees.

Taxes and licenses expenses decreased by Php339 million, or 17%, to Php1,683 million primarily due to lower non-creditable input taxes and business-related license fees.

Communication, training and travel expenses decreased by Php24 million, or 2%, to Php948 million primarily due to lower communication, training and travel expenses.

Insurance and security services expenses increased by Php50 million, or 6%, to Php831 million primarily due to higher site security expense and insurance premiums, partially offset by lower office security expense.

**Table of Contents**

Asset impairment decreased by Php1,202 million, or 59%, to Php824 million mainly due to the impairment loss recognized on the investment in Blue Ocean Wireless in 2009, lower provision for uncollectible receivables from subscribers and lower provision for obsolescence of slow-moving commercial and network inventory in 2010.

Amortization of intangible assets increased by Php8 million, or 6%, to Php134 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses decreased by Php19 million, or 2%, to Php979 million primarily due to lower various business and operational-related expenses.

**Other Income**

The following table summarizes the breakdown of our total wireless-related other income net for the years ended December 31, 2010 and 2009:

	2010	2009	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings (losses) of associates	Php 1,222	Php (68)	Php 1,290	1,897
Foreign exchange gains net	865	387	478	124
Interest income	698	1,139	(441)	(39)
Gains on derivative financial instruments net	3	1,166	(1,163)	(100)
Financing costs net	(2,683)	(2,619)	(64)	2
Others	1,130	1,144	(14)	(1)
Total	Php 1,235	Php 1,149	Php 86	7

Our wireless business other income net amounted to Php1,235 million in 2010, an increase of Php86 million, or 7%, from Php1,149 million in 2009 primarily due to the combined effects of the following: (i) equity share in net earnings of associates of Php1,222 million in 2010 as compared with equity share in net losses of Php68 million in 2009 mainly due to PCEV's share in net earnings of Meralco and Beacon; (ii) net increase in foreign exchange gains by Php478 million on account of higher gains on revaluation of net foreign currency-denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) decrease in other income by Php14 million mainly due to a gain on sale of investment in 2009, partially offset by a gain on sale of fixed assets in 2010; (iv) higher net financing costs by Php64 million primarily due to higher interest on loans and other related items on account of Smart's higher average loan balances and increase in accretion of financial liabilities partly offset by the increase in capitalized interest; (v) decrease in interest income by Php441 million mainly due to Smart's lower average level of short-term investments, as well as 2009 interest income recognized on the exchangeable note purchased by PCEV; and (vi) lower gain on derivative financial instruments by Php1,163 million mainly due to a gain in 2009 in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009.

Meralco's reported and core income amounted to Php9,685 million and Php12,155 million for the year ended December 31, 2010, respectively, as compared with Php6,005 million and Php7,003 million for the year ended December 31, 2009, respectively. These results reflect the higher volume of energy sold resulting from unusually high temperatures, higher consumption brought about by election spending in the first half of 2010 and of the upturn in business expansions within the franchise area throughout the year. In addition, the results were boosted by the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission. PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's December 31, 2010 results of operations, amounted to Php1,229 million and Php1,928 million, respectively, in 2010. PCEV's share in Meralco's reported and core income for the period from July 14, 2009 to December 31, 2009 amounted to Php398 million and Php534

million, respectively.

***Provision for Income Tax***

Provision for income tax decreased by Php1,100 million, or 9%, to Php11,414 million in 2010 from Php12,514 million in 2009 due to tax recognized on the transfer of the *Talk N Text* business to Smart in 2009. In 2010, the effective tax rate for our wireless business was 24% as compared with 27% in 2009. Smart and certain of its subsidiaries opted to use the optional standard deduction, or OSD, method in computing their taxable income in 2010 and 2009.

**Table of Contents****Net Income**

Our wireless business recorded a net income of Php35,376 million in 2010, an increase of Php1,649 million, or 5%, from Php33,727 million recorded in 2009 on account of a decrease in the wireless-related expenses by Php2,800 million, the lower provision for income tax by Php1,100 million and an increase in other income net by Php86 million, partially offset by a decrease in wireless revenues by Php2,337 million.

**Adjusted EBITDA**

Our wireless business adjusted EBITDA decreased by Php466 million, or 1%, to Php58,945 million in 2010 from Php59,411 million in 2009 mainly due to a decline in our wireless revenues as a result of lower revenues from our cellular services, and satellite and other revenues, and higher expenses related to repairs and maintenance, and compensation and employee benefits, partly offset by lower expenses particularly rent, cost of sales, taxes and licenses, selling and promotions, and cost of inventory obsolescence.

**Core Income**

Our wireless business core income increased by Php2,392 million, or 7%, to Php35,418 million in 2010 from Php33,026 million in 2009 on account of a decrease in the wireless-related expenses and lower provision for income tax, partially offset by a decrease in wireless revenues.

**Fixed Line****Revenues**

Revenues generated from our fixed line business amounted to Php48,951 million in 2010, a decrease of Php2,422 million, or 5%, from Php51,373 million in 2009. The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease) Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php 15,321	31	Php 15,681	31	Php (360)	(2)
International long distance	5,224	11	6,255	12	(1,031)	(16)
National long distance	4,690	10	5,969	12	(1,279)	(21)
Data and other network	21,646	44	21,567	42	79	
Miscellaneous	1,728	3	1,668	3	60	4
	48,609	99	51,140	100	(2,531)	(5)
Non-Service Revenues:						
Sale of computers, PLP units and SIM cards	342	1	233		109	47
Total Fixed Line Revenues	Php 48,951	100	Php 51,373	100	Php (2,422)	(5)

**Service Revenues**

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php2,531 million, or 5%, to Php48,609 million in 2010 from Php51,140 million in 2009 due to decreases in revenues from our national long distance, international long distance and local exchange services, partially offset by the increase in revenues from our data and other network services, as a result of higher revenues contributed by our DSL and i-Gate services, and miscellaneous services.

**Table of Contents***Local Exchange Service*

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

	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	
			<b>Amount</b>	<b>%</b>
Total local exchange service revenues (in millions)	Php 15,321	Php 15,681	Php (360)	(2)
Number of fixed line subscribers	1,822,105	1,816,541	5,564	
Postpaid	1,703,998	1,637,981	66,017	4
Prepaid	118,107	178,560	(60,453)	(34)
Number of fixed line employees	7,395	7,947	(552)	(7)
Number of fixed line subscribers per employee	246	229	17	7

Revenues from our local exchange service decreased by Php360 million, or 2%, to Php15,321 million in 2010 from Php15,681 million in 2009 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues was 31% in each of 2010 and 2009.

*PLP* offers both postpaid and prepaid wireless services, which allows subscribers to bring the telephone set anywhere within the home zone area.

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

There are two load plans being offered for the *PLP* prepaid service: (a) Php300 load denomination with free 150 local outgoing minutes; and (b) Php600 load denomination with free 600 local outgoing minutes. Both prepaid plans include unlimited incoming calls for one month and charges Php2 per minute and Php1 per minute in excess of free local outgoing minutes for Php300 and Php600 denominations, respectively. There were a total of 304,624 active *PLP* subscribers as at December 31, 2010, of which 271,432 and 33,192 were postpaid and prepaid subscribers, respectively, compared to a total of 224,165 active *PLP* subscribers as at December 31, 2009, of which 171,605 and 52,560 were postpaid and prepaid subscribers, respectively.

*International Long Distance Service*

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>	<b>Decrease</b>	
			<b>Amount</b>	<b>%</b>
Total international long distance service revenues (in millions)	Php5,224	Php6,255	Php(1,031)	(16)
Inbound	4,499	5,198	(699)	(13)
Outbound	725	1,057	(332)	(31)
International call volumes (in million minutes, except call ratio)	1,714	1,863	(149)	(8)
Inbound	1,515	1,653	(138)	(8)
Outbound	199	210	(11)	(5)



Inbound-outbound call ratio 7.6:1 7.9:1

Our total international long distance service revenues decreased by Php1,031 million, or 16%, to Php5,224 million in 2010 from Php6,255 million in 2009 primarily due to the decrease in the average collection and settlement rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 11% and 12% in 2010 and 2009, respectively.

Our revenues from inbound international long distance service decreased by Php699 million, or 13%, to Php4,499 million in 2010 from Php5,198 million in 2009 due to the decline in inbound call volumes and the effect of

**Table of Contents**

the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php332 million, or 31%, to Php725 million in 2010 from Php1,057 million in 2009 primarily due to lower average collection rate in dollar terms, the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009, resulting in a decrease in the average billing rates to Php45.31 in 2010 from Php47.78 in 2009, and the decline in outbound call volumes.

*National Long Distance Service*

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>	<b>Decrease Amount</b>	<b>%</b>
Total national long distance service revenues (in millions)	Php4,690	Php5,969	Php(1,279)	(21)
National long distance call volumes (in million minutes)	1,290	1,822	(532)	(29)

Our national long distance service revenues decreased by Php 1,279 million, or 21%, to Php4,690 million in 2010 from Php5,969 million in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 10% in 2010 from 12% in 2009.

*Data and Other Network Services*

The following table shows information of our data and other network service revenues for the years ended December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease) Amount</b>	<b>%</b>
Data and other network service revenues (in millions)	Php 21,646	Php 21,567	Php 79	
Domestic	15,637	16,391	(754)	(5)
<i>Broadband</i>	8,511	7,232	1,279	18
DSL	8,263	7,024	1,239	18
WeRoam	248	208	40	19
<i>Leased Lines and Others</i>	7,126	9,159	(2,033)	(22)
International				
<i>Leased Lines and Others</i>	6,009	5,176	833	16
Subscriber base:				
<i>Broadband</i>	665,027	576,687	88,340	15
DSL	643,048	559,664	83,384	15
WeRoam	21,979	17,023	4,956	29
<i>SWUP</i>	15,641	12,383	3,258	26

Our data and other network services posted revenues of Php21,646 million in 2010, an increase of Php79 million from Php21,567 million in 2009 primarily due to an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*, as well as an increase in international data revenues, particularly from i-Gate, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our

domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues increased to 44% in 2010 from 42% in 2009.

Domestic

Domestic data services contributed Php15,637 million in 2010, a decrease of Php754 million, or 5%, as compared with Php16,391 million in 2009 mainly due to lower Diginet revenues partially offset by the continued growth in DSL, *Shops.Work Unplugged*, or *SWUP*, internet protocol-virtual private network, or IP-VPN, and Metro Ethernet subscribers as customer locations and bandwidth requirements continued to expand and demand for

**Table of Contents**

offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services decreased to 72% in 2010 from 76% in 2009.

*Broadband*

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php8,511 million in 2010, an increase of Php1,279 million, or 18%, from Php7,232 million in 2009 primarily due to the higher revenue contribution of DSL which contributed revenues of Php8,263 million in 2010 from Php7,024 million in 2009 as a result of the increase in the number of subscribers, partially offset by the lower ARPU as a result of the launching of lower-priced promotional plans. DSL revenues accounted for 38% and 33% of total data and other network service revenues in 2010 and 2009, respectively. DSL subscribers increased by 15% to 643,048 subscribers as at December 31, 2010 from 559,664 subscribers in 2009. *WeRoam* revenues amounted to Php248 million in 2010 from Php208 million in 2009 as subscribers increased by 29% to 21,979 subscribers in 2010 from 17,023 subscribers in 2009.

*Leased Lines and Others*

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2010, *SWUP* has a total subscriber base of 15,641 up from 12,383 subscribers in 2009. Leased lines and other data revenues amounted to Php7,126 million in 2010, a decrease of Php2,033 million, or 22%, from Php9,159 million in 2009 primarily due to a decrease in Diginet revenues partially offset by the higher revenues from IP-VPN and Metro Ethernet. The percentage contribution of leased lines and other data service revenues to total data and other network services accounted for 33% and 42% in 2010 and 2009, respectively.

*International**Leased Lines and Others*

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other Global Service Providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php833 million, or 16%, to Php6,009 million in 2010 from Php5,176 million in 2009 primarily due to an increase in i-Gate revenues. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 28% and 24% in 2010 and 2009, respectively.

*Miscellaneous Services*

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues increased by Php60 million in 2010, or 4%, to Php1,728 million from Php1,668 million in 2009 mainly due to an increase in rental income owing to higher co-location charges and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 4% in 2010 from 3% in 2009.

*Non-service Revenues*

Non-service revenues increased by Php109 million, or 47%, to Php342 million in 2010 from Php233 million in 2009 primarily due to higher sales of *PLP* units and SIM cards.

**Table of Contents****Expenses**

Expenses related to our fixed line business totaled Php38,745 million in 2010, a decrease of Php336 million, or 1%, as compared with Php39,081 million in 2009. The decrease was primarily due to lower expenses related to asset impairment, rent, selling and promotions, and insurance and security services, partly offset by higher expenses related to compensation and employee benefits, professional and other contracted services, depreciation and amortization, repairs and maintenance, and cost of sales. Expenses associated with our fixed line business accounted for 79% and 76% in 2010 and 2009, respectively, of our total fixed line revenues.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Depreciation and amortization	Php 12,292	32	Php 11,619	30	Php 673	6
Compensation and employee benefits <sup>(1)</sup>	11,692	30	10,637	27	1,055	10
Repairs and maintenance	4,527	12	4,345	11	182	4
Professional and other contracted services	3,199	8	2,485	6	714	29
Rent	2,469	6	2,749	7	(280)	(10)
Selling and promotions	1,376	3	1,590	4	(214)	(13)
Taxes and licenses	780	2	755	2	25	3
Communication, training and travel	627	2	658	2	(31)	(5)
Insurance and security services	434	1	488	1	(54)	(11)
Cost of sales	433	1	310	1	123	40
Asset impairment	291	1	2,901	8	(2,610)	(90)
Other expenses	625	2	544	1	81	15
<b>Total</b>	<b>Php 38,745</b>	<b>100</b>	<b>Php 39,081</b>	<b>100</b>	<b>Php (336)</b>	<b>(1)</b>

<sup>(1)</sup> Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges increased by Php673 million, or 6%, to Php12,292 million due to a higher depreciable asset base in 2010 as compared with 2009.

Compensation and employee benefits expenses increased by Php1,055 million, or 10%, to Php11,692 million primarily due to higher MRP costs, and salaries and employee benefits due to collective bargaining agreement-related increases, partially offset by lower provisions for pension costs and LTIP. See Note 3 Management's Use of Judgments, Estimates and Assumptions and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements for further discussion.

Repairs and maintenance expenses increased by Php182 million, or 4%, to Php4,527 million primarily due to higher electricity charges, domestic cable and wire facilities, and higher building repairs and maintenance costs.

Professional and other contracted services increased by Php714 million, or 29%, to Php3,199 million primarily due to higher legal fees and contracted services and technical service fees for customer relationship management outsourcing project services, partially offset by lower management fees.

Rent expenses decreased by Php280 million, or 10%, to Php2,469 million due to a decrease in international leased circuit rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Selling and promotion expenses decreased by Php214 million, or 13%, to Php1,376 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations expenses.

Taxes and licenses increased by Php25 million, or 3%, to Php780 million as a result of higher business-related taxes.

Communication, training and travel expenses decreased by Php31 million, or 5%, to Php627 million mainly due to lower foreign travel expenses, and mailing and courier charges, partially offset by higher foreign training expenses, fuel consumption and local travel expenses.

**Table of Contents**

Insurance and security services decreased by Php54 million, or 11%, to Php434 million primarily due to lower insurance and bond premiums, and lower security services.

Cost of sales increased by Php123 million, or 40%, to Php433 million due to higher cost of SIM and *PLP* units sold for *PLP* prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Asset impairment decreased by Php2,610 million, or 90%, to Php291 million mainly due to impairment loss on priority deposit to ProtoStar in 2009, partially offset by higher impairment charges on payphone assets and investments in PLDT Italy in 2010.

Other expenses increased by Php81 million, or 15%, to Php625 million due to increases in various business and fixed line operational-related expenses.

**Other Expenses**

The following table summarizes the breakdown of our total fixed line-related other expenses net for the years ended December 31, 2010 and 2009:

	2010	2009	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains net	Php 1,008	Php 532	Php 476	89
Interest income	484	402	82	20
Losses on derivative financial instruments net	(1,746)	(2,180)	434	(20)
Financing costs net	(3,856)	(3,796)	(60)	2
Equity share in net losses of joint ventures		(98)	98	100
Others	1,164	970	194	20
Total	(Php 2,946)	(Php 4,170)	Php 1,224	(29)

Our fixed line business other expenses net amounted to Php2,946 million in 2010, a decrease of Php1,224 million, or 29%, from Php4,170 million in 2009. The change was due to the combined effects of the following:

(i) net increase in foreign exchange gains by Php476 million on account of higher gains on net foreign exchange revaluation of foreign-currency denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) lower loss on derivative financial instruments by Php434 million in 2010 as compared with 2009 due to lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts; (iii) increase in other income by Php194 million mainly due to the partial recovery of priority deposit from ProtoStar, higher miscellaneous income from consultancy, and subsidiaries and affiliates;

(iv) share in net losses of joint ventures of Php98 million in 2009; (v) an increase in interest income by Php82 million due to higher average interest rate and higher level of cash balances; and (vi) an increase in net financing costs by Php60 million due to an increase in interest expense on loans and related items net on account of a higher level of average loan balances as well as lower capitalized interest, partially offset by lower level of average interest rate.

**Provision for Income Tax**

Provision for income tax amounted to Php2,050 million in 2010, a decrease of Php208 million, or 9%, as compared with Php2,258 million in 2009 primarily due to lower taxable income.

**Net Income**

In 2010, our fixed line business contributed a net income of Php5,210 million, a decrease of Php654 million, or 11%, as compared with Php5,864 million in 2009 primarily as a result of the decrease in fixed line revenues by Php2,422 million, partially offset by decreases in other expenses net by Php1,224 million, lower fixed line-related expenses by Php336 million and lower provision for income tax by Php208 million.

**Adjusted EBITDA**

Our fixed line business adjusted EBITDA decreased by Php2,547 million, or 10%, to Php22,668 million in 2010 from Php25,215 million in 2009 primarily due to a decline in our fixed line service revenues as a result of lower revenues from our national long distance, international long distance and local exchange services, and higher expenses particularly compensation and employee benefits, and professional and other contracted services, partly offset by lower expenses related to doubtful accounts, rent, and selling and promotions.



**Table of Contents****Core Income**

Our fixed line business core income decreased by Php1,922 million in 2010, or 26%, to Php5,580 million from Php7,502 million in 2009 primarily as a result of the decrease in fixed line revenues and an increase in fixed line-related expenses, partially offset by lower provision for income tax.

**Information and Communications Technology****Revenues**

Our ICT business provides knowledge processing solutions, customer relationship management, internet and online gaming, and data center services.

In 2010, our ICT business generated revenues of Php11,358 million, a decrease of Php191 million, or 2%, as compared with Php11,549 million in 2009. This decrease was primarily due to the decline in the revenue contribution of our customer relationship management and internet and online gaming, as well as lower point-product sales, partially offset by the continued growth of our data center and knowledge processing solutions businesses service revenues.

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

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Increase (Decrease)</b>	<b>%</b>
			<b>(in millions)</b>			
<b>Service Revenues:</b>						
Knowledge processing solutions	Php 5,289	47	Php 5,215	45	Php 74	1
Customer relationship management	2,823	25	3,319	29	(496)	(15)
Internet and online gaming	1,059	9	1,113	10	(54)	(5)
Data center and others	1,506	13	1,204	10	302	25
	10,677	94	10,851	94	(174)	(2)
<b>Non-Service Revenues:</b>						
Point-product sales	681	6	698	6	(17)	(2)
<b>Total ICT Revenues</b>	<b>Php 11,358</b>	<b>100</b>	<b>Php 11,549</b>	<b>100</b>	<b>Php (191)</b>	<b>(2)</b>

**Service Revenues**

Service revenues generated by our ICT business segment amounted to Php10,677 million in 2010, a decrease of Php174 million, or 2%, as compared with Php10,851 million in 2009 primarily as a result of the decline in revenues from our customer relationship management and internet and online gaming businesses, partially offset by the increase in co-location and disaster recovery revenues from our data center business, as well as the higher revenues from our knowledge processing solutions business. As a percentage of our total ICT business revenues, service revenues accounted for 94% in each of 2010 and 2009.

**Knowledge Processing Solutions**

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php5,289 million in 2010, an increase of Php74 million, or 1%, from Php5,215 million in 2009. Dollar revenues increased by 8% offset by the appreciation of the Philippine peso to the U.S. dollar by 6%. Additional revenues from Laguna Medical (acquired in September 2009), Medical Billing and Content Solutions were recognized in 2010. Knowledge processing solutions business revenues accounted for 50% and 48% of total service revenues of our ICT business in 2010 and 2009, respectively.

**Customer Relationship Management**

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php496 million, or 15%, to Php2,823 million in 2010 from Php3,319 million in 2009 primarily due to lower dollar-denominated revenues by 14%, lower domestic sales by 1%, and the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 5,565 seats with an average of 4,592 customer service representatives, or CSRs, in 2010, as compared with 7,140 seats with an average of 5,190 CSRs in 2009. SPi CRM had six and seven customer relationship management sites as

**Table of Contents**

at December 31, 2010 and 2009, respectively. Customer relationship management business revenues accounted for 26% and 31% of total service revenues of our ICT business in 2010 and 2009, respectively.

*Internet and Online Gaming*

Revenues from our internet and online gaming business decreased by Php54 million, or 5%, to Php1,059 million in 2010 from Php1,113 million in 2009 primarily due to the absence of the introduction of major games in 2010, as well as the higher electricity cost, which forced internet cafés to shorten operating hours. Our internet and online gaming business revenues accounted for 10% of total service revenues of our ICT business in each of 2010 and 2009.

*Data Center and Others*

ePLDT operates an internet data center under the brand name *Vitroä*, which provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls, and other data services. Our data center contributed revenues of Php1,506 million in 2010, an increase of Php302 million, or 25%, from Php1,204 million in 2009 primarily due to an increase in co-location or rental and disaster recovery services revenues. Our data center revenues accounted for 14% and 11% of total service revenues of our ICT business in 2010 and 2009, respectively.

*Non-Service Revenues*

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. Non-service revenues generated by our ICT business decreased by Php17 million, or 2%, to Php681 million in 2010 from Php698 million in 2009 primarily due to the lower revenues from sales of software licenses.

*Expenses*

Expenses associated with our ICT business totaled Php11,944 million in 2010, an increase of Php655 million, or 6%, as compared with Php11,289 million in 2009, primarily due to the higher expenses related to asset impairment, repairs and maintenance, amortization of intangible assets, and insurance and security services, partially offset by the lower compensation and employee benefits, professional and other contracted services, cost of sales, communication, training and travel, and rent expenses. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 105% and 98% in 2010 and 2009, respectively.

The following table shows the breakdown of our total ICT-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>Increase (Decrease)</b>	<b>%</b>
	<b>(in millions)</b>				<b>Amount</b>	
Compensation and employee benefits <sup>(1)</sup>	Php 6,000	50	Php 6,418	57	Php (418)	(7)
Asset impairment	1,323	11	134	1	1,189	887
Repairs and maintenance	752	6	669	6	83	12
Cost of sales	751	6	799	7	(48)	(6)
Depreciation and amortization	742	6	751	7	(9)	(1)
Rent	687	6	716	6	(29)	(4)
Professional and other contracted services	500	4	592	5	(92)	(16)
Communication, training and travel	461	4	500	4	(39)	(8)
Amortization of intangible assets	254	2	242	2	12	5
Taxes and licenses	108	1	104	1	4	4
Selling and promotions	103	1	113	1	(10)	(9)
	79	1	68	1	11	16

Insurance and security services						
Other expenses	184	2	183	2	1	1
Total	Php 11,944	100	Php 11,289	100	Php 655	6

<sup>(1)</sup> *Includes salaries and employee benefits, LTIP, pension and MRP costs.*

Compensation and employee benefits decreased by Php418 million, or 7%, to Php6,000 million mainly due to a decline in salaries and employee benefits, and the lower provision for LTIP, partially offset by the increase in MRP costs and pension benefits. Although ePLDT and its subsidiaries' employee headcount increased by 629 to

**Table of Contents**

16,210 in 2010 as compared with 15,581 in 2009, related costs decreased due to lower labor cost per head, particularly from our knowledge processing solutions business.

Asset impairment increased by Php1,189 million, or 887%, to Php1,323 million primarily due to impairment of goodwill and other intangible assets in SPi related to its investment in CyMed and impairment of goodwill in ePLDT's investment in BayanTrade and Level Up!.

Repairs and maintenance expenses increased by Php83 million, or 12%, to Php752 million primarily due to the higher office and site electricity charges, and higher IT software repairs and maintenance costs particularly from our data center business partially offset by a decrease in buildings repairs and maintenance costs, janitorial services and lower purchases of low-value softwares.

Cost of sales decreased by Php48 million, or 6%, to Php751 million primarily due to the lower volume of sales of software licenses and hardware products.

Depreciation and amortization charges decreased by Php9 million, or 1%, to Php742 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions, customer relationship management and internet and online gaming businesses on account of fully depreciated assets and lower capital expenditures, partially offset by higher depreciation in relation to Data Center expansion and disaster recovery project.

Rent expenses decreased by Php29 million, or 4%, to Php687 million primarily due to the expiration of several leases and closure of several offices of knowledge processing solutions business partly offset by higher office building and site rental charges by the customer relationship management and data center businesses.

Professional and other contracted services decreased by Php92 million, or 16%, to Php500 million primarily due to lower contracted service fees, management fees, legal fees and other professional fees incurred by our knowledge processing solutions business.

Communication, training and travel expenses decreased by Php39 million, or 8%, to Php461 million primarily due to lower local and foreign training and travel expenses, courier charges and communications charges incurred by our customer relationship management and knowledge processing solutions businesses, partially offset by higher trunk line charges by our data center business.

Amortization of intangible assets increased by Php12 million, or 5%, to Php254 million due to intangible assets recognized in relation to the acquisition of Laguna Medical and additional game licenses acquired by our gaming business in late 2009 and 2010.

Taxes and licenses increased by Php4 million, or 4%, to Php108 million primarily due to higher business-related taxes.

Selling and promotion expenses decreased by Php10 million, or 9%, to Php103 million mainly due to our gaming business lower promotional expenses due to the timing of launching of its new major games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management and data center businesses.

Insurance and security services increased by Php11 million, or 16%, to Php79 million primarily due to higher security services and insurance premiums.

Other expenses increased by Php1 million, or 1%, to Php184 million mainly due to higher various business and ICT operational-related costs.

**Other Income**

The following table summarizes the breakdown of our total ICT-related other income net for the years ended December 31, 2010 and 2009:

	2010	2009	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php 186	Php 168	Php 18	11
Interest income	35	28	7	25
Gains on derivative financial instruments net	2	8	(6)	(75)

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Foreign exchange losses net	(66)	(12)	(54)	450
Financing costs net	(176)	(171)	(5)	3
Others	240	195	45	23
Total	Php 221	Php 216	Php 5	2

81

---

**Table of Contents**

Our ICT business other income net amounted to Php221 million in 2010, an increase of Php5 million, or 2%, from Php216 million in 2009 primarily due to the combined effects of the following: (i) an increase in other income by Php45 million mainly due to adjustment in fair value of contingent liability of SPi America Holdings from the acquisition of Laguna Medical and insurance claim received in 2010 partly offset by the de-recognition of liabilities in 2009; (ii) an increase in equity share in net earnings of associates by Php18 million; (iii) an increase in interest income of Php7 million due to increase in short-term placements and bank deposits; (iv) an increase in financing costs net by Php5 million due to higher accretion on contingent liabilities from our knowledge processing solutions business; (v) the lower gain on derivative financial instruments by Php6 million mainly due to the expiration of derivative contracts of Parlance and SPi in December 2009; and (vi) a net increase in foreign exchange losses by Php54 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2010.

**Benefit from Income Tax**

Benefit from income tax of Php38 million in 2010 from Php28 million in 2009 primarily due to the corresponding deferred tax benefit from the amortization of intangible assets related to the acquisition of Laguna Medical in 2009.

**Net Income (Loss)**

In 2010, our ICT business registered a net loss of Php327 million as compared with a net income of Php504 million in 2009 mainly as a result of an increase in ICT-related expenses by Php655 million due to asset impairment charges and a decrease in ICT revenues by Php191 million, partially offset by a net benefit from income tax by Php10 million and an increase in other income by Php5 million.

**Adjusted EBITDA**

Our ICT business adjusted EBITDA increased by Php393 million, or 30%, to Php1,723 million in 2010 from Php1,330 million in 2009 primarily due to lower expenses particularly compensation and employee benefits, professional and other contracted services, and cost of sales, partially offset by a decline in revenues from our customer relationship management, and internet and online gaming businesses.

**Core Income**

Our ICT business core income amounted to Php1,030 million in 2010, an increase of Php417 million, or 68%, as compared with Php613 million in 2009 mainly as a result of a decrease in cash expenses and a net benefit from income tax partially offset by a decrease in ICT revenues.

**2009 Compared to 2008****On a Consolidated Basis****Revenues**

Our revenues increased by Php2,156 million, or 1%, to Php147,993 million in 2009 from Php145,837 million in 2008. This increase was primarily due to an increase in our service revenues by Php2,694 million resulting largely from an increase in the service revenues of our wireless and fixed line businesses, which was primarily due to an increase in the number of our cellular and broadband subscribers, which was partially offset by a decrease in our non-service revenues.

**Table of Contents**

The following table shows the breakdown of our consolidated revenues for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Php	%	(in millions)	%	Amount	%
Wireless	97,524	66	95,852	66	1,672	2
Fixed line	51,373	34	49,686	34	1,687	3
Information and communications technology	11,549	8	10,983	7	566	5
Inter-segment transactions	(12,453)	(8)	(10,684)	(7)	(1,769)	17
Consolidated	Php 147,993	100	Php 145,837	100	Php 2,156	1

**Expenses**

Our expenses increased by Php4,325 million, or 5%, to Php90,111 million in 2009 from Php85,786 million in 2008 largely resulting from increases in compensation and employee benefits, depreciation and amortization, asset impairment, rent and other operating expenses partly offset by lower provisions, professional and other contracted services, and communication, training and travel expenses. As a percentage of our consolidated revenues, consolidated expenses increased to 61% in 2009 from 59% in 2008.

The following table shows the breakdown of our consolidated expenses for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Php	%	(in millions)	%	Amount	%
Wireless	52,432	58	47,589	55	4,843	10
Fixed line	39,081	43	35,733	42	3,348	9
Information and communications technology	11,289	13	13,267	16	(1,978)	(15)
Inter-segment transactions	(12,691)	(14)	(10,803)	(13)	(1,888)	17
Consolidated	Php 90,111	100	Php 85,786	100	Php 4,325	5

**Other Expenses**

Other expenses net decreased by Php2,959 million, or 49%, to Php3,043 million in 2009 as compared with Php6,002 million in 2008. The decrease was primarily due to the combined effects of the following: (i) net foreign exchange gains of Php909 million in 2009 as compared with net foreign exchange losses of Php6,170 million in 2008 due to the appreciation of the Philippine peso to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008; (ii) an increase in other income of Php404 million primarily due to a gain on fair value adjustment of investment properties and a gain on the dissolution of Mabuhay Space Holdings Limited, a joint venture between Mabuhay Satellite and Space Systems/Loral, Inc.; (iii) an increase in equity share in net earnings of associates and joint ventures by Php178 million due to the share in net earnings of Meralco from July 15, 2009 (PCEV acquired a 20% equity interest of Meralco on July 14, 2009) to December 31, 2009; (iv) lower interest income by Php129 million due to lower average interest rate on money market placements and special deposits; (v) an increase in net financing costs by Php452 million mainly due to higher interest on loans and other related items net, on account of PLDT's and Smart's higher average loan balances, depreciation of foreign exchange rate and lower capitalized interest; and (vi) net losses on derivative financial instruments of Php1,006 million on account of loss on mark-to-market valuation on foreign currency swaps in 2009 as against net gains on derivative financial instruments



of Php3,115 million in 2008 due to the effect of the de-designation of foreign currency swaps and option contracts.

The following table shows the breakdown of our consolidated other expenses net for the years ended December 31, 2009 and 2008 by business segment:

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 1,149	(38)	Php (2,640)	44	Php 3,789	144
Fixed line	(4,170)	137	(3,173)	53	(997)	31
Information and communications technology	216	(7)	(1)		217	21,700
Inter-segment transactions	(238)	8	(188)	3	(50)	27
Consolidated	Php (3,043)	100	Php (6,002)	100	Php 2,959	(49)

***Provision for Income Tax***

**Table of Contents**

Provision for income tax decreased by Php4,329 million, or 23%, to Php14,744 million in 2009, as compared with Php19,073 million in 2008 mainly due to a reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and the availment of the optional standard deduction, or OSD, method in the computation of income tax by Smart and certain of our wireless and fixed line subsidiaries.

**Net Income**

As a result, our consolidated net income was Php40,095 million in 2009, an increase of Php5,119 million, or 15%, as compared with Php34,976 million in 2008 primarily due to lower consolidated other expenses net, lower consolidated provision for income tax and higher consolidated revenues partially offset by a slight increase in consolidated expenses.

The following table shows the breakdown of our consolidated net income for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Amount	%	Amount	%	Amount	%
			(in millions)			
Wireless	Php 33,727	84	Php 29,499	84	Php 4,228	14
Fixed line	5,864	15	7,732	22	(1,868)	(24)
Information and communications technology	504	1	(2,186)	(6)	2,690	123
Inter-segment transactions			(69)		69	100
Consolidated	Php 40,095	100	Php 34,976	100	Php 5,119	15

**Adjusted EBITDA**

Our consolidated adjusted EBITDA was Php86,194 million in 2009, a decrease of Php1,802 million, or 2%, as compared with Php87,996 million in 2008 primarily due to higher expenses particularly compensation and employee benefits, provision for uncollectible receivables, rent expenses, and various operational and business-related expenses, partially offset by an increase in service revenues across our businesses.

The following table shows the breakdown of our consolidated adjusted EBITDA for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Amount	%	Amount	%	Amount	%
			(in millions)			
Wireless	Php 59,411	69	Php 60,967	69	Php (1,556)	(3)
Fixed line	25,215	29	25,854	30	(639)	(2)
Information and communications technology	1,330	2	1,056	1	274	26
Inter-segment transactions	238		119		119	100
Consolidated	Php 86,194	100	Php 87,996	100	Php (1,802)	(2)

**Core Income**

Our consolidated core income was Php41,138 million in 2009, an increase of Php2,924 million, or 8%, as compared with Php38,214 million in 2008 primarily due to lower provision for income tax and higher revenues, partially offset by higher expenses.

The following table shows the breakdown of our consolidated core income for the years ended December 31, 2009 and 2008 by business segment:

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Change</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless	Php 33,026	80	Php 30,250	79	Php 2,776	9
Fixed line	7,502	18	7,890	21	(388)	(5)
Information and communications technology	613	2	138		475	344
Inter-segment transactions	(3)		(64)		61	95
Consolidated	Php 41,138	100	Php 38,214	100	Php 2,924	8

84

**Table of Contents****On a Business Segment Basis****Wireless****Revenues**

Revenues generated from our wireless business amounted to Php97,524 million in 2009, an increase of Php1,672 million, or 2%, from Php95,852 million in 2008. The following table summarizes our total revenues from our wireless business for the years ended December 31, 2009 and 2008 by service segment:

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless Services:						
Service Revenues:						
Cellular	Php 88,410	91	Php 87,518	92	Php 892	1
Wireless broadband, satellite and others						
Wireless broadband	5,383	5	4,327	4	1,056	24
Satellite and others	2,036	2	1,748	2	288	16
	95,829	98	93,593	98	2,236	2
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	1,695	2	2,259	2	(564)	(25)
Total Wireless Revenues	Php 97,524	100	Php 95,852	100	Php 1,672	2

**Service Revenues**

Our wireless service revenues increased by Php2,236 million, or 2%, to Php95,829 million in 2009 as compared with Php93,593 million in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from voice services increased due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008, as well as the growth in international inbound call volumes in 2009 as compared with 2008. Revenues from SMS, on the other hand, decreased due to the increase in the number of multiple SIM card ownership, intense competition and the continued decline in SMS yield as a result of aggressive SMS offers. Since the growth in our cellular subscriber base was mainly due to the increase in multiple SIM card ownership especially in the lower income segment of the Philippine wireless market and the increase in our call volumes was primarily due to the introduction of new unlimited voice offers, average monthly cellular ARPUs for 2009 were lower as compared with 2008. Due to the popularity of unlimited voice offers and competitive pressures, we expect this trend to continue. As a percentage of our total wireless revenues, service revenues contributed 98% in both 2009 and 2008.

**Cellular Service**

Our cellular service revenues amounted to Php88,410 million in 2009, an increase of Php892 million, or 1%, from Php87,518 million in 2008. Cellular service revenues accounted for 92% of our wireless service revenues in 2009 as compared with 94% in 2008.

**Table of Contents**

The following table shows the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
			Amount	%
	(in millions)			
Cellular service revenues	Php88,410	Php87,518	Php 892	1
<i>By service type</i>				
Prepaid	85,922	85,079	843	1
Postpaid	79,284	78,743	541	1
	6,638	6,336	302	5
<i>By component</i>				
Voice	85,922	85,079	843	1
Data	38,850	37,275	1,575	4
	47,072	47,804	(732)	(2)
<i>Others<sup>(1)</sup></i>	2,488	2,439	49	2

<sup>(1)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices and share in PLDT's WeRoam and PLP services, a small number of leased line contracts, revenues from Wolfpac and other Smart subsidiaries

	2009	2008	Increase (Decrease)	
			Amount	%
Cellular subscriber base	41,328,641	35,224,604	6,104,037	17
Prepaid	40,893,098	34,826,468	6,066,630	17
Smart Buddy	23,762,814	20,501,617	3,261,197	16
Talk N Text <sup>(1)</sup>	17,050,713	14,308,493	2,742,220	19
Red Mobile <sup>(2)</sup>	79,571	16,358	63,213	386
Postpaid	435,543	398,136	37,407	9
Systemwide traffic volumes (in millions)				
Calls (in minutes)	16,305	9,192	7,113	77
Domestic	13,371	6,287	7,084	113
Inbound	1,495	1,654	(159)	(10)
Outbound	11,876	4,633	7,243	156
International	2,934	2,905	29	1
Inbound	2,738	2,684	54	2
Outbound	196	221	(25)	(11)
SMS/Data count (in hits)	287,921	258,246	29,675	11
Text messages	286,294	256,606	29,688	12
Domestic	285,847	256,181	29,666	12
Inbound	8,289	8,430	(141)	(2)
Outbound	277,558	247,751	29,807	12
Bucket-Priced	258,190	226,937	31,253	14
Standard	19,368	20,814	(1,446)	(7)
International	447	425	22	5
Inbound	136	125	11	9

<i>Outbound</i>	311	300	11	4
Value-Added Services	1,608	1,614	(6)	
Financial Services	19	26	(7)	(27)

(1) *The transfer of PCEV's cellular business to Smart was completed on August 17, 2009*

(2) *The Red Mobile brand was launched in November 2008 by CURE*

Revenues attributable to our cellular prepaid service amounted to Php79,284 million in 2009, an increase of Php541 million, or 1%, over the Php78,743 million earned in 2008. Prepaid cellular service revenues accounted for 92% and 93% of cellular voice and data revenues in 2009 and 2008, respectively. Revenues attributable to Smart's postpaid cellular service amounted to Php6,638 million in 2009, an increase of Php302 million, or 5%, over the Php6,336 million earned in 2008, and accounted for 8% and 7% of cellular voice and data revenues in 2009 and 2008, respectively.

**Table of Contents***Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php1,575 million, or 4%, to Php38,850 million in 2009 from Php37,275 million in 2008 primarily due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008 and the growth in inbound international call volumes. Cellular voice services accounted for 44% of our cellular service revenues in 2009 as compared with 43% in 2008.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease) Amount	%
	(in millions)			
Voice services:				
<i>Domestic</i>				
Inbound	Php 5,095	Php 5,405	(Php 310)	(6)
Outbound	16,534	15,959	575	4
	21,629	21,364	265	1
<i>International</i>				
Inbound	15,287	13,732	1,555	11
Outbound	1,934	2,179	(245)	(11)
	17,221	15,911	1,310	8
Total	Php 38,850	Php 37,275	Php 1,575	4

Domestic voice service revenues increased by Php265 million, or 1%, to Php21,629 million in 2009 from Php21,364 million in 2008 primarily due to an increase in domestic outbound call revenues by Php575 million, or 4%, to Php16,534 million in 2009 from Php15,959 million in 2008 mainly due to unlimited voice offerings. This was partially offset by the lower revenue contribution of our inbound domestic voice service by Php310 million, or 6%, to Php5,095 million in 2009 from Php5,405 million in 2008 as a result of lower call volumes from PLDT's regular call service due to the introduction of a fixed rate calling package, partly offset by higher traffic from other domestic. Inbound and outbound domestic call volumes were 1,495 million minutes and 11,876 million minutes, respectively, in 2009 from 1,654 million minutes and 4,633 million minutes, respectively, in 2008. The aggregate increase was mainly due to higher call volumes from unlimited voice offerings.

International voice service revenues increased by Php1,310 million, or 8%, to Php17,221 million in 2009 from Php15,911 million in 2008 primarily due to higher inbound international voice service revenues by Php1,555 million, or 11%, to Php15,287 million in 2009 from Php13,732 million in 2008. The increase in international voice service revenues was mainly on account of the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 for the year ended December 31, 2009 from Php44.47 for the year ended December 31, 2008 on our dollar-linked revenues complemented by the increase in international inbound call volumes by 54 million minutes, or 2%, to 2,738 million minutes in 2009 from 2,684 million minutes in 2008. This was partially offset by lower international outbound voice service revenues by Php245 million, or 11%, to Php1,934 million in 2009 from Php2,179 million in 2008 as international outbound call volumes decline by 25 million

minutes, or 11%, to 196 million minutes in 2009 from 221 million minutes in 2008.

*Data Services*

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php732 million, or 2%, to Php47,072 million in 2009 from Php47,804 million in 2008. Cellular data services accounted for 53% and 55% of our cellular service revenues in 2009 and 2008, respectively.



**Table of Contents**

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
		(in millions)	Amount	%
Text messaging				
Domestic	Php 42,905	Php 43,477	Php (572)	(1)
<i>Bucket-Priced</i>	<i>26,797</i>	<i>26,461</i>	<i>336</i>	<i>1</i>
<i>Standard</i>	<i>16,108</i>	<i>17,016</i>	<i>(908)</i>	<i>(5)</i>
International	1,668	1,808	(140)	(8)
	44,573	45,285	(712)	(2)
Value-added services				
Standard <sup>(1)</sup>	1,057	1,325	(268)	(20)
Rich Media <sup>(2)</sup>	998	679	319	47
<i>Pasa Load</i>	<i>413</i>	<i>470</i>	<i>(57)</i>	<i>(12)</i>
	2,468	2,474	(6)	
Financial services				
<i>Smart Money</i>	<i>27</i>	<i>41</i>	<i>(14)</i>	<i>(34)</i>
Mobile Banking	4	4		
	31	45	(14)	(31)
Total	Php 47,072	Php 47,804	Php (732)	(2)

(1) Includes standard services such as info-on-demand, ringtone and logo download, etc.

(2) Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.

Text messaging-related services contributed revenues of Php44,573 million in 2009, a decrease of Php712 million, or 2%, as compared with Php45,285 million in 2008, and accounted for 95% of our total cellular data revenues in each of 2009 and 2008. The decrease in revenues from text messaging-related services resulted mainly from the increase in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS, intense competition, the continued decline in SMS yield as a result of unlimited SMS offers and alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php26,797 million in 2009, an increase of Php336 million, or 1%, as compared with Php26,461 million in 2008. On the other hand, standard text messaging revenues decreased by Php908 million to Php16,108 million in 2009 from Php17,016 million in 2008. The decrease in international text messaging revenues was mainly due to the higher average/effective rate of roaming costs in 2009.

Bucket-priced text messages totaled 258,190 million in 2009, an increase of 31,253 million, or 14%, as compared with 226,937 million in 2008. Standard text messages totaled 19,368 million in 2009, a decrease of 1,446 million, or 7%, as compared with 20,814 million in 2008 mainly due to a shift to bucket-priced text services.

VAS, which contributed revenues of Php2,468 million in 2009, decreased by Php6 million from Php2,474 million in 2008 primarily due to lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of air time credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups partially offset by higher usage of rich media services.

*Subscriber Base, ARPU and Churn Rates*

Smart (including PCEV's *Talk N Text* subscribers which were transferred to Smart on August 17, 2009) and *Red Mobile* cellular subscribers totaled 41,328,641 at the end of 2009, an increase of 6,104,037, or 17%, over their combined cellular subscriber base of 35,224,604 at the end of 2008. This increase in our cellular subscriber base was primarily attributable to multiple SIM card ownership which, together with unlimited voice offers, resulted in lower average monthly cellular ARPU for 2009 than in 2008. Our cellular prepaid subscriber base grew by 17% to 40,893,098 in 2009 from 34,826,468 in 2008, while our cellular postpaid subscriber base increased by 9% to 435,543 in 2009 from 398,136 in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 6,066,630 and 37,407, respectively, in 2009 and 5,127,318 and 56,256, respectively, in 2008.

**Table of Contents**

Our net subscriber activations for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008	Increase (Decrease)	
			Amount	%
Prepaid	6,066,630	5,127,318	939,312	18
<i>Smart Buddy</i>	3,261,197	504,293	2,756,904	547
<i>Talk N Text</i>	2,742,220	4,606,667	(1,864,447)	(40)
<i>Red Mobile</i> <sup>(2)</sup>	63,213	16,358	46,855	286
Postpaid	37,407	56,256	(18,849)	(34)
Total	6,104,037	5,183,574	920,463	18

<sup>(1)</sup> The transfer of PCEV's cellular business to Smart was completed on August 17, 2009

<sup>(2)</sup> The Red Mobile brand was launched in November 2008 by CURE

Our quarterly net subscriber activations over the eight quarters in 2009 and 2008 were as follows:

	2009				2008			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,692,767	1,575,585	621,154	2,177,124	1,533,812	1,660,040	917,528	1,015,938
<i>Smart Buddy</i>	419,821	523,496	644,932	1,672,948	282,044	130,697	111,487	(19,935)
<i>Talk N Text</i>	1,256,907	1,019,162	(32,419)	498,570	1,251,768	1,529,343	806,041	1,019,515
<i>Red Mobile</i>	16,039	32,927	8,641	5,606				16,358
Postpaid	9,328	17,746	6,806	3,527	1,117	5,027	17,816	32,296
Total	1,702,095	1,593,331	627,960	2,180,651	1,534,929	1,665,067	935,344	1,048,234

For *Smart Buddy*, the average monthly churn rate for 2009 and 2008 was 4.2% and 4.7%, respectively, while the average monthly churn rate for *Talk N Text* subscribers was 5.0% and 4.8% in 2009 and 2008, respectively. The average monthly churn rate for *Red Mobile* subscribers was 12.3% in 2009.

The average monthly churn rate for Smart's postpaid subscribers were 1.9% and 1.2% for 2009 and 2008, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our cellular average monthly ARPUs for the years ended December 31, 2009 and 2008:

	Gross <sup>(1)</sup>		Decrease		Net <sup>(2)</sup>		Decrease	
	2009	2008	Amount	%	2009	2008	Amount	%
Prepaid								

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

<i>Smart Buddy</i>	Php	261	Php	290	Php	(29)	(10)	Php	207	Php	230	Php	(23)	(10)
<i>Talk N Text</i>		161		194		(33)	(17)		133		158		(25)	(16)
<i>Red Mobile</i>		20		48		(28)	(58)		13		39		(26)	(67)
Prepaid														
Blended <sup>(3)</sup>		218		254		(36)	(14)		175		203		(28)	(14)
Postpaid Smart		1,817		2,065		(248)	(12)		1,313		1,483		(170)	(11)
Prepaid and														
Postpaid														
Blended <sup>(4)</sup>		235		274		(39)	(14)		188		217		(29)	(13)

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

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

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

(4) *The average monthly ARPU of all prepaid and postpaid cellular subscribers.*

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU was Php218 in 2009, a decrease of 14%, as compared with Php254 in 2008.

**Table of Contents**

The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in 2009 as compared with 2008 resulting primarily from the fact that the increase in our cellular subscriber base in 2009 was primarily attributable to multiple SIM card ownership and that the increase in our call volumes resulted primarily from unlimited voice offerings. On a net basis, prepaid blended average monthly ARPU was Php175 in 2009, a decrease of 14%, as compared with Php203 in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 12% to Php1,817 as net average monthly ARPU also decreased by 11% to Php1,313 in 2009 as compared with Php2,065 and Php1,483 in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php235 in 2009, a decrease of 14%, as compared with Php274 in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 13% to Php188 in 2009 from Php217 in 2008.

Our average quarterly prepaid and postpaid ARPUs for 2009 and 2008 were as follows:

	Smart Buddy		Prepaid Talk N Text		Red Mobile		Postpaid Smart	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
<b>2009</b>								
First Quarter	Php272	Php216	Php176	Php144	Php25	Php14	Php1,863	Php1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278
Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304
<b>2008</b>								
First Quarter	292	230	207	163			2,013	1,472
Second Quarter	294	232	199	159			2,134	1,510
Third Quarter	285	223	178	148			2,078	1,505
Fourth Quarter	291	234	192	162	48	39	2,037	1,445

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

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

*Wireless Broadband, Satellite and Other Services*

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

*Wireless Broadband*

Revenues from our wireless broadband services increased by Php1,056 million, or 24%, to Php5,383 million in 2009 from Php4,327 million in 2008 primarily due to the growth in wireless broadband subscribers.

SBI offers a number of wireless broadband services and had a total of 1,037,720 subscribers as at December 31, 2009, an increase of 490,630 subscribers, or 90%, as compared with 547,090 subscribers as at December 31, 2008. Our postpaid wireless broadband subscriber base increased by 13,094 subscribers to 436,037 subscribers as at December 31, 2009 from 422,943 subscribers as at December 31, 2008. Our prepaid wireless broadband subscriber base also increased by 477,536 subscribers, or 385%, to 601,683 subscribers as at December 31, 2009 from 124,147 subscribers as at December 31, 2008.

*Satellite and Other Services*

Revenues from our satellite and other services increased by Php288 million, or 16%, to Php2,036 million in 2009 from Php1,748 million in 2008 principally due to the growth in subscribers of our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 for the year ended December 31, 2009 from Php44.47 for the year ended December 31, 2008 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues, partially offset by lower satellite

transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

**Table of Contents****Non-Service Revenues**

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php564 million, or 25%, to Php1,695 million in 2009 as compared with Php2,259 million in 2008 primarily due to the lower average retail price of cellular phonekits and SIM-packs, partly offset by increased sales of broadband data modems.

**Expenses**

Expenses associated with our wireless business amounted to Php52,432 million in 2009, an increase of Php4,843 million, or 10%, from Php47,589 million in 2008. A significant portion of this increase was attributable to rent, depreciation and amortization, asset impairment, compensation and employee benefits, professional and other contracted services, and other expenses, partially offset by lower expenses related to provisions, and communication, training and travel expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 54% and 50% in 2009 and 2008, respectively.

Cellular business expenses accounted for 85% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 15% of our wireless business expenses in 2009 as compared with 90% and 10%, respectively, in 2008.

The following table summarizes the breakdown of our total wireless-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Wireless Services:						
Depreciation and amortization	Php 13,237	25	Php 11,975	25	Php 1,262	11
Rent	10,553	20	9,267	20	1,286	14
Compensation and employee benefits <sup>(1)</sup>	6,059	12	5,433	11	626	12
Cost of sales	4,363	8	4,236	9	127	3
Repairs and maintenance	4,340	8	4,230	9	110	3
Selling and promotions	4,051	8	3,781	8	270	7
Professional and other contracted services	2,904	6	2,529	5	375	15
Asset impairment	2,026	4	1,006	2	1,020	101
Taxes and licenses	2,022	4	1,872	4	150	8
Communication, training and travel	972	2	1,091	2	(119)	(11)
Insurance and security services	781	1	722	2	59	8
Amortization of intangible assets	126		133		(7)	(5)
Provisions			897	2	(897)	(100)
Other expenses	998	2	417	1	581	139
<b>Total</b>	<b>Php 52,432</b>	<b>100</b>	<b>Php 47,589</b>	<b>100</b>	<b>Php 4,843</b>	<b>10</b>

<sup>(1)</sup> Includes salaries and employee benefits, long-term incentive plan, or LTIP, pension and MRP costs.

Depreciation and amortization charges increased by Php1,262 million, or 11%, to Php13,237 million in 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband

customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network. Going forward, we expect our depreciation and amortization expenses to increase in line with our expected increase in our capital expenditures in 2010.

Rent expenses increased by Php1,286 million, or 14%, to Php10,553 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site rental expenses. In 2009, we had 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations, as compared with 5,284 cell sites, 8,477 cellular/mobile broadband base stations and 1,986 fixed wireless broadband-enabled base stations in 2008.

Compensation and employee benefits expenses increased by Php626 million, or 12%, to Php6,059 million primarily due to increased provision for LTIP, MRP cost, merit-based increases, and employee upgrades and promotions. The increase was partly offset by a decrease in employee headcount of Smart and subsidiaries by 94 to 5,454 in 2009 as compared with 5,548 in 2008. For further discussion of our LTIP, please see Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.



**Table of Contents**

Cost of sales increased by Php127 million, or 3%, to Php4,363 million primarily due to higher sales volume of broadband data modems in 2009 and an increase in retention transactions, partly offset by the lower combined average cost of cellular phonekits and SIM-packs.

Repairs and maintenance expenses increased by Php110 million, or 3%, to Php4,340 million mainly due to an increase in network maintenance costs and electricity consumption, partly offset by lower fuel costs for power generation and lower software maintenance expenses.

Selling and promotion expenses increased by Php270 million, or 7%, to Php4,051 million primarily due to higher advertising, promotional campaigns and public relations expenses.

Professional and other contracted services increased by Php375 million, or 15%, to Php2,904 million primarily due to the increase in call center service fees, partly offset by lower contracted service fees, payment facility fees, consultancy and technical service fees.

Asset impairment increased by Php1,020 million, or 101%, to Php2,026 million mainly due to higher impairment on fixed assets and intangibles, higher provision for uncollectible receivables and higher provision for obsolescence of slow-moving handsets and broadband routers and modems.

Taxes and licenses increased by Php150 million, or 8%, to Php2,022 million primarily due to higher business-related taxes and license fees.

Communication, training and travel expenses decreased by Php119 million, or 11%, to Php972 million primarily due to lower travel, training, fuel, communication and hauling expenses incurred in 2009.

Insurance and security services increased by Php59 million, or 8%, to Php781 million primarily due to the increase in the number of sites and higher salary rate of security guards.

Amortization of intangibles decreased by Php7 million, or 5%, to Php126 million primarily due to the full amortization of technical application relating to SBI, partly offset by the amortization of licenses relating to BOW.

Provisions of Php897 million in 2008 pertained to provisions for assessments. Please see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18 for further discussion.

Other expenses increased by Php581 million, or 139%, to Php998 million primarily due to higher various business and wireless operational-related expenses.

**Other Income (Expenses)**

The following table summarizes the breakdown of our total wireless-related other income (expenses) net for the years ended December 31, 2009 and 2008:

	2009	2008	Change Amount	%
		(in millions)		
Other Income (Expenses):				
Gains (losses) on derivative financial instruments net	Php 1,166	Php (241)	Php 1,407	584
Interest income	1,139	1,197	(58)	(5)
Foreign exchange gains (losses) net	387	(1,771)	2,158	122
Equity share in net losses of associates	(68)	(119)	51	(43)
Financing costs net	(2,619)	(2,029)	(590)	29
Others	1,144	323	821	254
Total	Php 1,149	Php (2,640)	Php 3,789	144

Our wireless business generated other income net of Php1,149 million in 2009, an increase of Php3,789 million, or 144%, as against other expenses net of Php2,640 million in 2008 primarily due to the combined effects of the following: (1) net foreign exchange gains of Php387 million in 2009 as against net losses on foreign exchange revaluation of Php1,771 million in 2008 mainly due to the appreciation of the Philippine peso to the U.S. dollar in 2009; (2) net gains on derivative financial instruments of Php1,166 million in 2009 as against net losses on derivative transactions of Php241 million in 2008 mainly due to a gain in the mark-to-market valuation of Php1,170 million



**Table of Contents**

relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009; (3) increase in other income by Php821 million mainly due to Smart's equipment rental and gain on dissolution of Mabuhay Space Holdings Limited (please see to Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further discussion); (4) decrease in equity share in net losses of associates by Php51 million, mainly from the decline in equity share in net losses in BOW complemented by the share in net earnings of Meralco of Php398 million from July 15, 2009 (PCEV acquired 20% equity interest of Meralco) to December 31, 2009, net of amortization of share in Meralco intangibles of Php41 million and depreciation of fair value adjustment of certain Meralco's utility, plant and others of Php59 million, partly offset by a Php381 million loss on the re-measurement of Smart's investment in BOW; and (5) higher net financing costs by Php590 million primarily due to higher interest on loans and other related items net on account of Smart's higher average loan balances, foreign exchange rate, interest rate, and lower capitalized interest.

**Provision for Income Tax**

Provision for income tax decreased by Php3,610 million, or 22%, to Php12,514 million in 2009 from Php16,124 million in 2008. The effective tax rate for our wireless business was 27% in 2009 as compared with 35% in 2008 mainly due to the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and availment of OSD in the computation of regular corporate income tax.

**Net Income**

Our wireless business recorded a net income of Php33,727 million in 2009, an increase of Php4,228 million, or 14%, from Php29,499 million recorded in 2008 primarily due to an increase of Php3,789 million in other income net, a decrease of Php3,610 million in provision for income tax and a Php2,236 million increase in wireless service revenues, partially offset by an increase in wireless-related expenses of Php4,843 million and a Php564 million decrease in non-service revenues.

**Adjusted EBITDA**

Our wireless business adjusted EBITDA was Php59,411 million in 2009, a decrease of Php1,556 million, or 3%, as compared with Php60,967 million in 2008 primarily due to higher cash operating expenses particularly rent, compensation and employee benefits, professional and other contracted services, selling and promotions, and other operating expenses, partially offset by higher service revenues.

**Core Income**

Our wireless business core income in 2009 was Php33,026 million, an increase of Php2,776 million, or 9%, as compared with Php30,250 million in 2008 primarily due to lower provision for income tax and higher revenues, partially offset by higher expenses.

**Fixed Line****Revenues**

Revenues generated from our fixed line business amounted to Php51,373 million in 2009, an increase of Php1,687 million, or 3%, from Php49,686 million in 2008.

**Table of Contents**

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease) Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php 15,681	31	Php 15,923	32	Php (242)	(2)
International long distance	6,255	12	7,063	14	(808)	(11)
National long distance	5,969	12	6,207	13	(238)	(4)
Data and other network	21,567	42	18,607	37	2,960	16
Miscellaneous	1,668	3	1,466	3	202	14
	51,140	100	49,266	99	1,874	4
Non-Service Revenues:						
Sale of computers	233		420	1	(187)	(45)
Total Fixed Line Revenues	Php 51,373	100	Php 49,686	100	Php 1,687	3

**Service Revenues**

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,874 million, or 4%, to Php51,140 million in 2009 from Php49,266 million in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and diginet services, and miscellaneous services, partially offset by a decrease in revenues from our international long distance, local exchange and national long distance services.

For a description of our service offerings, see Item 4. Information on the Company Business Fixed Line.

**Local Exchange Service**

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,681	Php 15,923	Php (242)	(2)
Number of fixed line subscribers	1,816,541	1,782,356	34,185	2
Postpaid	1,637,981	1,533,687	104,294	7
Prepaid	178,560	248,669	(70,109)	(28)
Number of fixed line employees <sup>(1)</sup>	7,947	7,813	134	2
Number of fixed line subscribers per employee	229	228	1	

<sup>(1)</sup> Increase in headcount was primarily due to the acquisition of Philcom.

Revenues from our local exchange service decreased by Php242 million, or 2%, to Php15,681 million in 2009 from Php15,923 million in 2008 primarily owing to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and higher service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 31% in 2009 as compared

with 32% in 2008.

See Item 4. Information on the Company Business Fixed Line Local Exchange Service for further information on our local exchange service.

**Table of Contents***International Long Distance Service*

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	<b>2009</b>	<b>2008</b>	<b>Decrease Amount</b>	<b>%</b>
Total international long distance service revenues (in millions)	Php6,255	Php7,063	Php(808)	(11)
Inbound	5,198	5,667	(469)	(8)
Outbound	1,057	1,396	(339)	(24)
International call volumes (in million minutes, except call ratio)	1,863	2,024	(161)	(8)
Inbound	1,653	1,786	(133)	(7)
Outbound	210	238	(28)	(12)
Inbound-outbound call ratio	7.9:1	7.5:1		

Our total international long distance service revenues decreased by Php808 million, or 11%, to Php6,255 million in 2009 from Php7,063 million in 2008 primarily due to a decrease in inbound and outbound call volumes on account of cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 12% in 2009 from 14% in 2008.

Our revenues from inbound international long distance service decreased by Php469 million, or 8%, to Php5,198 million in 2009 from Php5,667 million in 2008 due to a decline in inbound traffic volume by 133 million minutes to 1,653 million minutes in 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php339 million, or 24%, to Php1,057 million in 2009 from Php1,396 million in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 in 2009 from Php44.47 in 2008, resulting in an increase in the average billing rates to Php47.78 in 2009 from Php43.95 in 2008.

*National Long Distance Service*

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	<b>2009</b>	<b>2008</b>	<b>Decrease Amount</b>	<b>%</b>
Total national long distance service revenues (in millions)	Php5,969	Php6,207	Php(238)	(4)
National long distance call volumes (in million minutes)	1,822	1,944	(122)	(6)

Our national long distance service revenues decreased by Php238 million, or 4%, to Php5,969 million in 2009 from Php6,207 million in 2008 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 12% in 2009 from 13% in 2008.



**Table of Contents***Data and Other Network Services*

The following table shows information of our data and other network service revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase Amount	%
Data and other network service revenues (in millions)	Php 21,567	Php 18,607	Php 2,960	16
Domestic	16,391	14,155	2,236	16
<i>Broadband</i>	7,232	5,563	1,669	30
DSL	7,024	5,360	1,664	31
WeRoam	208	203	5	2
<i>Leased Lines and Others</i>	9,159	8,592	567	7
International				
<i>Leased Lines and Others</i>	5,176	4,452	724	16
Subscriber base:				
<i>Broadband</i>	576,687	448,826	127,861	28
DSL	559,664	432,583	127,081	29
WeRoam	17,023	16,243	780	5
<i>SWUP</i>	12,383	6,516	5,867	90

Our data and other network services posted revenues of Php21,567 million in 2009, an increase of Php2,960 million, or 16%, from Php18,607 million in 2008 primarily due to increases in domestic data revenues, owing to higher revenues from *PLDT DSL*, Diginet, Metro Ethernet and *SWUP*, as well as higher international data revenues, particularly from i-Gate. The percentage contribution of this service segment to our fixed line service revenues increased to 42% in 2009 from 38% in 2008.

*Domestic*

Domestic data services contributed Php16,391 million in 2009, an increase of Php2,236 million, or 16%, as compared with Php14,155 million in 2008 mainly due to the continued growth in DSL, *SWUP*, IP-VPN and Metro Ethernet subscribers as demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services accounted for 76% in each of 2009 and 2008.

*Broadband*

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php7,232 million in 2009, an increase of Php1,669 million, or 30%, from Php5,563 million in 2008 primarily due to the higher revenue contribution of DSL which contributed revenues of Php7,024 million in 2009 from Php5,360 million in 2008 owing to the increase in the number of subscribers. DSL revenues accounted for 33% and 29% of total data and other network service revenues in 2009 and 2008, respectively. DSL subscribers increased by 29% to 559,664 subscribers as at December 31, 2009 from 432,583 subscribers as at December 31, 2008. *WeRoam* revenues amounted to Php208 million in 2009 from Php203 million in 2008 as subscribers increased by 5%, to 17,023 subscribers as at December 31, 2009 from 16,243 subscribers as at December 31, 2008.

*Leased Lines and Others*

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links



company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2009, *SWUP* has a total subscriber base of 12,383 from 6,516 subscribers as at December 31, 2008. Leased lines and other data revenues amounted to Php9,159 million in 2009, an increase of Php567 million, or 7%, from Php8,592 million in 2008 primarily due to an increase in Diginet and Metro Ethernet revenues. The percentage

**Table of Contents**

contribution of leased lines and other data service revenues to total data and other network services accounted for 42% and 46% in 2009 and 2008, respectively.

**International***Leased Lines and Others*

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other Global Service Providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php724 million, or 16%, to Php5,176 million in 2009 from Php4,452 million in 2008 primarily due to an increase in i-Gate revenues. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 24% in each of 2009 and 2008.

*Miscellaneous*

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues increased by Php202 million in 2009, or 14%, to Php1,668 million from Php1,466 million in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2009 and 2008.

**Non-service Revenues**

Non-service revenues decreased by Php187 million, or 45%, to Php233 million in 2009 from Php420 million in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

**Expenses**

Expenses related to our fixed line business totaled Php39,081 million in 2009, an increase of Php3,348 million, or 9%, as compared with Php35,733 million in 2008. The increase was primarily due to higher asset impairment, compensation and employee benefits, professional and other contracted services, and rent, which were partly offset by decreases in repairs and maintenance, depreciation and amortization, selling and promotions expenses, cost of sales, and other business-related expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 72% in 2009 and 2008, respectively.

The following table shows the breakdown of our total fixed line-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Increase (Decrease)</b>	
			<b>(in millions)</b>		<b>Amount</b>	<b>%</b>
Fixed Line Services:						
Depreciation and amortization	Php 11,619	30	Php 11,901	33	Php (282)	(2)
Compensation and employee benefits <sup>(1)</sup>	10,637	27	9,093	25	1,544	17
Repairs and maintenance	4,345	11	4,634	13	(289)	(6)
Asset impairment	2,901	8	888	3	2,013	227
Rent	2,749	7	2,492	7	257	10
Professional and other contracted services	2,485	6	2,143	6	342	16
Selling and promotions	1,590	4	1,715	5	(125)	(7)
Taxes and licenses	755	2	769	2	(14)	(2)
	658	2	608	2	50	8

Communication, training and travel						
Insurance and security services	488	1	487	1	1	
Cost of sales	310	1	356	1	(46)	(13)
Provisions			1		(1)	(100)
Other expenses	544	1	646	2	(102)	(16)
Total	Php 39,081	100	Php 35,733	100	Php 3,348	9

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

**Table of Contents**

Depreciation and amortization charges decreased by Php282 million, or 2%, to Php11,619 million due to a lower depreciable asset base in 2009 as compared with 2008.

Compensation and employee benefits expenses increased by Php1,544 million, or 17%, to Php10,637 million primarily due to increased salaries and employee benefits due to an increase in headcount resulting from the acquisition of Philcom and the transfer of Smart's corporate business group to PLDT, and higher provisions for pension costs and LTIP. For further discussion on our LTIP and pension benefits, please see Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

Repairs and maintenance expenses decreased by Php289 million, or 6%, to Php4,345 million primarily due to lower maintenance costs of IT software and domestic cable and wire facilities as less operating and maintenance-related restorations were incurred in 2009 as compared with 2008.

Asset impairment increased by Php2,013 million, or 227%, to Php2,901 million mainly due to impairment loss on the prepaid transponder lease payment to ProtoStar and provision for uncollectible customer receivables. Please see Note 18 Prepayments and Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18 for the discussion of the prepaid transponder lease to ProtoStar.

Rent expenses increased by Php257 million, or 10%, to Php2,749 million due to an increase in international leased circuit charges and satellite link rental charges, partially offset by a decrease in site rental charges.

Professional and other contracted services increased by Php342 million, or 16%, to Php2,485 million primarily due to higher technical and contracted service fees for customer relationship management outsourcing project services.

Selling and promotion expenses decreased by Php125 million, or 7%, to Php1,590 million primarily due to lower spending on marketing and promotion expenses as a result of curtailment on major advertising campaigns in 2009.

Taxes and licenses decreased by Php14 million, or 2%, to Php755 million as a result of lower business-related taxes.

Communication, training and travel expenses increased by Php50 million, or 8%, to Php658 million due to increases in foreign travel and local training expenses, higher mailing and courier and communication charges.

Insurance and security services increased by Php1 million to Php488 million primarily due to higher security services.

Cost of sales decreased by Php46 million, or 13%, to Php310 million due to lower computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php102 million, or 16%, to Php544 million due to decreases in various business and fixed line operational-related expenses.

**Other Expenses**

The following table summarizes the breakdown of our total fixed line-related other expenses net for the years ended December 31, 2009 and 2008:

	2009	2008	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains (losses) net	Php 532	Php (4,513)	Php 5,045	112
Interest income	402	448	(46)	(10)
Equity share in net losses of joint ventures	(98)	(74)	(24)	32
Gains (losses) on derivative financial instruments net	(2,180)	3,444	(5,624)	(163)
Financing costs net	(3,796)	(3,903)	107	(3)
Others	970	1,425	(455)	(32)
Total	Php (4,170)	Php (3,173)	Php (997)	31

**Table of Contents**

Our fixed line business other expenses net amounted to Php4,170 million in 2009, an increase of Php997 million, or 31%, as compared with Php3,173 million in 2008. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php2,180 million in 2009 as against net gains on derivative financial instruments of Php3,444 million in 2008 due to the loss on mark-to-market valuation of foreign currency swaps contracts; (ii) decrease in other income by Php455 million primarily due to lower gain on sale of fixed assets partially offset by the gain on fair value adjustment of investment properties; (iii) net foreign exchange gains of Php532 million on account of gain on foreign exchange revaluation of net foreign currency-denominated liabilities owing to the appreciation of the Philippine peso to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008 as against net foreign exchange losses of Php4,513 million due to the revaluation of net foreign currency-denominated liabilities on account of the depreciation of the Philippine peso to the U.S. dollar to Php47.65 as at December 31, 2008 from Php41.41 as at December 31, 2007; and (iv) a decrease in net financing costs by Php107 million due to lower premium payment in relation with the buyback of bonds in 2009 as compared with 2008 and higher capitalized interest partly offset by higher financing charges.

**Provision for Income Tax**

Provision for income tax amounted to Php2,258 million, a decrease of Php790 million, or 26%, in 2009 as compared with Php3,048 million in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009.

**Net Income**

Our fixed line business contributed a net income of Php5,864 million in 2009, a decrease of Php1,868 million, or 24%, as compared with Php7,732 million in 2008 primarily as a result of increases in fixed line-related expenses by Php3,348 million mainly due to the impairment loss on the prepaid transponder lease to ProtoStar, increases in compensation and employee benefits, increases in other expenses net by Php997 million, and a decrease in non-service revenues of Php187 million. The increase in fixed line-related expenses was partially offset by an increase in fixed line service revenues by Php1,874 million and a lower provision for income tax by Php790 million.

**Adjusted EBITDA**

Our fixed line business adjusted EBITDA was Php25,215 million in 2009, a decrease of Php639 million, or 2%, as compared with Php25,854 million in 2008 primarily due to higher expenses particularly compensation and employee benefits, provision for uncollectible receivables, professional and other contracted services, and rent expenses, partially offset by higher service revenues.

**Core Income**

Our fixed line business core income in 2009 was Php7,502 million, a decrease of Php388 million, or 5%, as compared with Php7,890 million in 2008 primarily due to higher expenses, partially offset by higher revenues and lower provision for income tax.

**Information and Communications Technology****Revenues**

Our ICT business provides knowledge processing solutions, customer relationship management, internet and online gaming, and data center services.

Our ICT business generated revenues of Php11,549 million in 2009, an increase of Php566 million, or 5%, as compared with Php10,983 million in 2008. This increase was primarily due to the continued growth of our data center service revenues and our internet and online gaming businesses, partially offset by decreases in the revenue contribution of our customer relationship management and knowledge processing solutions businesses.

The following table summarizes our total revenues from our ICT business for the years ended December 31, 2009 and 2008 by service segment:

**Table of Contents**

	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>	<b>Increase (Decrease)</b>	<b>Amount</b>	<b>%</b>
			<b>(in millions)</b>				
<b>Service Revenues:</b>							
Knowledge processing solutions	Php 5,215	45	Php 5,272	48	Php	(57)	(1)
Customer relationship management	3,319	29	3,402	31		(83)	(2)
Internet and online gaming	1,113	10	976	9		137	14
Data center and others	1,284	11	767	7		517	67
	10,931	95	10,417	95		514	5
<b>Non-Service Revenues:</b>							
Point-product sales	618	5	566	5		52	9
<b>Total ICT Revenues</b>	<b>Php 11,549</b>	<b>100</b>	<b>Php 10,983</b>	<b>100</b>	<b>Php</b>	<b>566</b>	<b>5</b>

**Service Revenues**

Service revenues generated by our ICT business amounted to Php10,931 million in 2009, an increase of Php514 million, or 5%, as compared with Php10,417 million in 2008 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business complemented by the growth in our internet and online gaming business. Furthermore, the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2009 complemented the increase in ICT business revenues. This was partially offset by the decline in revenues from our knowledge processing solutions and customer relationship management businesses. As a percentage of our total ICT business revenues, service revenues remained stable at 95% in 2009 and 2008.

*Knowledge Processing Solutions*

We provide our knowledge processing solutions business primarily through the SPi Group. Knowledge processing solutions business contributed revenues of Php5,215 million in 2009, a decrease of Php57 million, or 1%, as compared with Php5,272 million in 2008 primarily due to lower revenues contributed by SPi's healthcare and litigation services. Knowledge processing solutions accounted for 48% and 51% of total service revenues of our ICT business in 2009 and 2008, respectively.

*Customer Relationship Management*

We provide our customer relationship management primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php83 million, or 2%, to Php3,319 million in 2009 from Php3,402 million in 2008 primarily due to the decrease in international dollar-denominated revenues as a result of termination of contracts with certain international clients and shrinkage from existing programs, partially offset by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and an increase in domestic revenues. In total, we own and operate approximately 7,140 seats with an average of 5,190 CSRs in 2009 as compared with approximately 6,580 seats with 5,800 CSRs in 2008. SPi CRM had seven customer relationship management sites as at December 31, 2009 and 2008. Customer relationship management revenues accounted for 30% and 33% of total service revenues of our ICT business in 2009 and 2008, respectively.

*Internet and Online Gaming*

Revenues from our internet and online gaming businesses increased by Php137 million, or 14%, to Php1,113 million in 2009 from Php976 million in 2008 primarily due to an increase in the revenue contribution of Level Up! resulting from its new online games and Infocom's revenues from handling PLDT's DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 10% and 9% of total service revenues of our ICT business in 2009 and 2008, respectively.



**Table of Contents***Data Center and Others*

ePLDT operates an internet data center under the brand name *Vitroä*, which provides co-location or rental services, server hosting, data disaster recovery and business continuity services, intrusion detection, security services such as firewalls and managed firewalls and other data services. In 2009, our data center contributed revenues of Php1,284 million, an increase of Php517 million, or 67%, from Php767 million in 2008 primarily due to an increase in demand for our co-location or rental services and server hosting services. Our data center revenues accounted for 12% and 7% of total service revenues of our ICT business in 2009 and 2008, respectively.

**Non-Service Revenues**

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. Non-service revenues generated by our ICT business increased by Php52 million in 2009, or 9%, to Php618 million from Php566 million in 2008 primarily due to higher revenues from sales of software licenses.

In 2009, ePLDT acquired majority equity interest in BayanTrade, Inc., a leading licensed software reseller in the Philippines.

**Expenses**

Expenses associated with our ICT business totaled Php11,289 million in 2009, a decrease of Php1,978 million, or 15%, as compared with Php13,267 million in 2008 primarily due to lower asset impairment, professional and other contracted services, selling and promotions expenses, depreciation and amortization, and communication, training and travel expenses, partially offset by increases in compensation and employee benefits, cost of sales, and repairs and maintenance. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 98% and 121% in 2009 and 2008, respectively.

The following table shows the breakdown of our total ICT-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	2009	%	2008	%	Increase (Decrease)	
	(in millions)				Amount	%
ICT Services:						
Compensation and employee benefits <sup>(1)</sup>	Php 6,418	57	Php 6,131	46	Php 287	5
Cost of sales	799	7	660	5	139	21
Depreciation and amortization	751	7	833	6	(82)	(10)
Rent	716	6	665	5	51	8
Repairs and maintenance	669	6	573	4	96	17
Professional and other contracted services	592	5	747	6	(155)	(21)
Communication, training and travel	500	4	573	4	(73)	(13)
Amortization of intangible assets	242	2	244	2	(2)	(1)
Asset impairment	134	1	2,286	17	(2,152)	(94)
Selling and promotions	113	1	203	2	(90)	(44)
Taxes and licenses	104	1	98	1	6	6
Insurance and security services	68	1	61		7	11
Other expenses	183	2	193	2	(10)	(5)
<b>Total</b>	<b>Php 11,289</b>	<b>100</b>	<b>Php 13,267</b>	<b>100</b>	<b>Php (1,978)</b>	<b>(15)</b>



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

Compensation and employee benefits increased by Php287 million, or 5%, to Php6,418 million mainly due to basic pay increases as a result of salary rate adjustments, as well as an increase in MRP costs and provisions for LTIP partially offset by the decrease in ePLDT and subsidiaries employee headcount by 908, or 6%, to 15,581 in 2009 as compared with 16,489 in 2008.

Cost of sales increased by Php139 million, or 21%, to Php799 million primarily due to higher volume of sales of software licenses and hardware products.

**Table of Contents**

Depreciation and amortization charges decreased by Php82 million, or 10%, to Php751 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business on account of lower capital expenditures in 2009 as compared with 2008.

Rent expenses increased by Php51 million, or 8%, to Php716 million primarily due to higher office building and site rental charges.

Repairs and maintenance expenses increased by Php96 million, or 17%, to Php669 million primarily due to higher building, site, IT software and hardware repairs and maintenance costs as a result of data center expansion, and higher electricity charges.

Professional and other contracted services decreased by Php155 million, or 21%, to Php592 million primarily due to lower technical service and subcontracted service fees incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php73 million, or 13%, to Php500 million primarily due to lower local and foreign training and travel expenses incurred by our customer relationship management and knowledge processing solutions businesses.

Amortization of intangible assets decreased by Php2 million, or 1%, to Php242 million due to lower foreign exchange rate in 2009. Please see Note 14 Goodwill and Intangible Assets to the accompanying consolidated financial statements in Item 18 for further discussion.

Asset impairment decreased by Php2,152 million, or 94%, to Php134 million primarily due to lower impairment on goodwill and other intangibles from the investment in SPi and Level Up! in 2009 as compared with 2008.

Selling and promotion expenses decreased by Php90 million, or 44%, to Php113 million mainly due to the SPi Group's lower commission, advertising and marketing expenses.

Taxes and licenses increased by Php6 million, or 6%, to Php104 million primarily due to higher business-related taxes.

Insurance and security services increased by Php7 million, or 11%, to Php68 million primarily due to higher security services.

Other expenses decreased by Php10 million, or 5%, to Php183 million mainly due to lower various business and ICT operational-related costs.

**Other Income (Expenses)**

The following table summarizes the breakdown of our total ICT-related other income (expenses) net for the years ended December 31, 2009 and 2008:

	2009	2008	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php 168	Php 17	Php 151	888
Interest income	28	22	6	27
Gains (losses) on derivative financial instruments net	8	(59)	67	114
Foreign exchange gains (losses) net	(12)	93	(105)	(113)
Financing costs net	(171)	(172)	1	(1)
Others	195	98	97	99
Total	Php 216	Php (1)	Php 217	21,700

Our ICT business generated other income net of Php216 million in 2009, an increase of Php217 million as against other expenses net of Php1 million in 2008 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php151 million; (ii) an increase in other income by Php97 million on account of the de-recognition of liabilities; (iii) an increase in net gains on forward foreign exchange contracts by Php67 million; and (iv) net foreign exchange losses of Php105 million due to the revaluation of net



**Table of Contents**

foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2009.

***Benefit from Income Tax***

Benefit from income tax decreased by Php71 million, or 72%, to Php28 million in 2009 from Php99 million in 2008 primarily due to a higher taxable income and expiration of tax incentives.

***Net Income (Loss)***

Our ICT business registered a net income of Php504 million in 2009, an improvement of Php2,690 million, or 123%, from a net loss of Php2,186 million in 2008 mainly as a result of Php566 million increase in ICT revenues, other income net of Php217 million and Php1,978 million decrease in ICT-related expenses partially offset by lower benefit from income tax of Php71 million.

***Adjusted EBITDA***

Our ICT business adjusted EBITDA was Php1,330 million in 2009, an increase of Php274 million, or 26%, as compared with Php1,056 million in 2008 primarily due to higher revenues, partially offset by the increase in expenses particularly compensation and employee benefits, cost of sales, repairs and maintenance, and rent expenses.

***Core Income***

Our ICT business core income in 2009 was Php613 million, an increase of Php475 million, or 344%, as compared with Php138 million in 2008 primarily due to lower expenses and higher revenues, partially offset by lower benefit from income tax.

***Plans and Prospects***

We are the largest and most diversified telecommunications company in the Philippines. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to attain undisputed market leadership across all metrics. We plan to adopt an integrated approach to our customers with the delivery of a superior customer experience. We will reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services. In addition, we intend to align the deployment of our fixed line and wireless platforms and technologies such that these initiatives dovetail and result in cost efficiencies. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

Our 2011 budget for consolidated capital expenditures is approximately Php34.4 billion, of which approximately Php19.5 billion is budgeted to be spent by Smart, approximately Php13.5 billion is budgeted to be spent by PLDT and the balance represents the budgeted capital spending of our other subsidiaries. The higher than usual level of capital expenditures stems from the acceleration of our technology roadmap, given current market dynamics and the anticipated surge in demand for data. The budget also includes provisions for the modernization of our networks, adapting to the more voice- and data-centric environment.

Our capital expenditure projects can be classified as follows:

- (1) Technical Objectives these include the upgrade and modernization of the wireless network in order to realize operating and cost efficiencies, provide greater resilience and redundancy, as well as investments in additional cable systems;
- (2) Commercial Objectives these include the provisioning of expanded capacity and coverage as well as new platforms to expand service offerings; and
- (3) IT/Support Systems these include the upgrade of our IT and support systems.

Given the favorable state of our financial position, we expect to fund incremental capital expenditures from both debt and free cash flow.

***Liquidity and Capital Resources***

The following table shows our consolidated cash flows for the years ended December 31, 2010, 2009 and 2008 as well as our consolidated capitalization and other consolidated selected financial data as at December 31,

**Table of Contents**

2010 and 2009:

	<b>2010</b>	<b>2009</b> <b>(in millions)</b>	<b>2008</b>
<b>Cash Flows</b>			
Net cash provided by operating activities	Php 77,260	Php 74,386	Php 78,302
Net cash used in investing activities	23,283	49,132	17,014
<i>Capital expenditures</i>	28,766	28,069	25,203
Net cash used in financing activities	55,322	20,293	45,464
Net increase (decrease) in cash and cash equivalents	(1,641)	4,635	16,237

	<b>2010</b>	<b>2009</b> <b>(in millions)</b>
<b>Capitalization</b>		
Interest-bearing financial liabilities:		
Long-term portion of financial liabilities:		
Long-term debt	Php 75,879	Php 86,066
Obligations under finance lease	9	13
	75,888	86,079
Current portion of interest-bearing financial liabilities:		
Notes payable		2,279
Long-term debt maturing within one year	13,767	10,384
Obligations under finance lease maturing within one year	34	51
	13,801	12,714
Total interest-bearing financial liabilities	89,689	98,793
Total equity	97,069	98,575
	Php 186,758	Php 197,368

**Other Selected Financial Data**

Total assets	Php 277,815	Php 280,148
Property, plant and equipment net	163,184	161,256
Cash and cash equivalents	36,678	38,319
Short-term investments	669	3,824

Our consolidated cash and cash equivalents and short-term investments totaled Php37,347 million as at December 31, 2010. Principal sources of consolidated cash and cash equivalents were cash flows from operating activities amounting to Php77,260 million, proceeds from avilment of long-term debt of Php7,246 million, net proceeds from maturity of short-term investments of Php3,142 million and interest received of Php1,165 million. These funds were used principally for: (1) dividend payments of Php41,080 million; (2) capital outlays of Php28,766 million; (3) total debt principal and interest payments of Php14,645 million and Php5,580 million, respectively; and (4) settlement of derivative financial instruments of Php1,095 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php42,143 million as at December 31, 2009. Principal sources of consolidated cash and cash equivalents were cash flows from operating

activities amounting to Php74,386 million in 2009 and drawings mainly from PLDT's and Smart's debt facilities, including notes payable, aggregating Php43,989 million and net proceeds from maturity of short-term investments of Php2,890 million. These funds were used principally for: (1) dividend payments of Php39,286 million; (2) payments for purchase of investments in subsidiaries and associates of Php27,059 million, including PCEV's acquisition of Meralco shares of Php18,070 million and settlement of the tender offer to PCEV's non-controlling interests of Php6,618 million; (3) capital outlays of Php28,069 million; (4) total debt principal and interest payments of Php19,228 million and Php5,239 million, respectively; (5) payment for an exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to PCEV (including derivative option) of Php2,000 million; and (6) a buyback of shares of PLDT of Php1,752 million.

***Operating Activities***

Our consolidated net cash flows from operating activities increased by Php2,874 million, or 4%, to Php77,260 million in 2010 from Php74,386 million in 2009 primarily due to lower pension contribution and lower level of settlement of various payables. Net cash flows from operating activities decreased by Php3,916 million, or 5%, to Php74,386 million in 2009 from Php78,302 million in 2008 primarily due to higher pension contributions made to the beneficial trust fund partially offset by lower other working capital requirements.

Cash flows from operating activities of our wireless business amounted to Php55,497 million in 2010, an increase of Php439 million, or 1%, as compared with Php55,058 million in 2009 as a result of a lower level of settlement of accounts payable, partially offset by higher level of outstanding receivables mainly from dealers, carriers and subscribers and LTIP payout in 2010. Cash flows from operating activities of our fixed line business

**Table of Contents**

amounted to Php20,454 million in 2010, an increase of Php2,544 million, or 14%, as compared with Php17,910 million in 2009 primarily due to higher collection of accounts receivables and lower pension contributions made to the beneficial trust fund, partially offset by LTIP payout in 2010 and higher level of settlement of accounts payable and other current liabilities in 2010. Cash flows from operating activities of our ICT business decreased by Php96 million, or 7%, to Php1,327 million in 2010 from Php1,423 million in 2009 mainly due to higher working capital requirements in 2010.

Cash flows from operating activities of our wireless business amounted to Php55,058 million in 2009, an increase of Php12,278 million, or 29%, as compared with Php42,780 million in 2008. The increase in our wireless business cash flows from operating activities was primarily a result of lower prepayments of leased circuits, higher collection of receivables, and higher level of various current liabilities in 2009 as compared with 2008. On the other hand, cash flows from operating activities of our ICT business decreased by Php329 million, or 19%, to Php1,423 million in 2009 from Php1,752 million in 2008 mainly due to higher working capital requirements in 2009. Cash flows from operating activities of our fixed line business decreased by Php15,884 million, or 47%, to Php17,910 million in 2009 from Php33,794 million in 2008 primarily due to lower level of advance payments received from various customers, higher pension contributions made to the beneficial trust fund and lower collection of accounts receivable.

Dividend payments received by PLDT from Smart amounted to Php33,500 million, Php37,440 million and Php24,200 million in 2010, 2009 and 2008, respectively. Of this, Php7,000 million, Php6,000 million and Php5,500 million were paid on July 16, 2010, September 7, 2010 and December 10, 2010, respectively, while the remaining Php15,000 million remains unpaid. Of the Php37,440 million declared in 2009, Php14,800 million, Php5,640 million and Php17,000 million were paid on April 13, 2009, September 11, 2009 and April 6, 2010, respectively, while of the Php24,200 million declared in 2008, Php10,000 million, Php7,200 million and Php7,000 million were paid on April 11, 2008, September 3, 2008 and September 18, 2008, respectively.

PCEV paid cash dividends to common shareholders amounting to Php6,077 million and Php5,061 million in 2009 and 2008, of which Php5,640 million and Php4,664 million, respectively, was paid to Smart. PCEV paid cash dividends to various preferred shareholders in the aggregate amount of Php2,943 million in 2007, of which Php2,930 million was paid to PLDT.

***Investing Activities***

Consolidated net cash used in investing activities amounted to Php23,283 million in 2010, a decrease of Php25,849 million, or 53%, as compared with Php49,132 million in 2009 primarily due to the combined effects of the following: (1) lower purchase of investment in subsidiaries and associates by Php26,858 million mainly due to PCEV's acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer of PCEV's non-controlling shareholders of Php6,618 million in 2009; (2) higher net proceeds from the maturity of short-term investments by Php252 million; (3) higher dividends received in 2010 by Php174 million; (4) increase in capital expenditures by Php697 million in 2010; (5) lower net proceeds of investments in debt securities by Php427 million; (6) increase in advances and refundable deposits by Php230 million; and (7) lower interest received by Php187 million.

Consolidated net cash used in investing activities amounted to Php49,132 million in 2009, an increase of Php32,118 million, or 189%, as compared with Php17,014 million in 2008. This increase was primarily due to the combined effects of the following: (1) higher payments for investments in subsidiaries and associates by Php26,303 million mainly due to PCEV's acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer to PCEV's non-controlling shareholders of Php6,618 million; (2) lower net proceeds from the maturity of short-term investments by Php4,514 million; (3) an increase in capital expenditures by Php2,866 million in 2009; and (4) higher net proceeds from the maturity of investments in debt securities by Php1,214 million, mainly from net redemption of various treasury bonds of Php2,651 million partially offset by the payment of Php1,437 million for the purchase of an exchangeable note with face value of Php2,000 million issued by FPUC to PCEV as part of the Meralco shares acquisition transaction.

Our consolidated capital expenditures totaled Php28,766 million in 2010, an increase of Php697 million, or 2%, as compared with Php28,069 million in 2009 primarily due to increase in Smart's capital spending. Smart's capital spending of Php16,944 million in 2010 was used primarily to build a secondary network for unlimited services, to

expand its 3G broadband network, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,874 million in 2010 was principally used to finance the expansion and

---



**Table of Contents**

upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. ePLDT and its subsidiaries' capital spending of Php750 million in 2010 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures totaled Php28,069 million in 2009, an increase of Php2,866 million, or 11%, as compared with Php25,203 million in 2008 primarily due to an increase in PLDT's capital spending. Smart's capital spending of Php16,247 million in 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,991 million in 2009 was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services and outside plant rehabilitation. ePLDT and its subsidiaries' capital spending of Php729 million in 2009 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

On July 14, 2009, PCEV completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18,070 million for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note's discount of Php116 million. Please see Item 4. Information on the Company's Development Activities (2008-2010) and Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further information on the acquisition of Meralco shares.

In view of the change in PCEV's business direction upon the acquisition of Meralco shares, Smart's Board of Directors approved a tender offer to acquire the approximately 840 million shares from PCEV's non-controlling shareholders (representing approximately 7.19% of the outstanding shares of PCEV) at Php8.50 per share payable entirely in cash on August 12, 2009. Approximately 93% of PCEV's non-controlling shares tendered and Smart paid Php6,618 million to tendering shareholders on August 12, 2009, thereby increasing its ownership in PCEV to approximately 99.5% of PCEV's outstanding common stock. Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statements of financial position. Please see Note 2 Summary of Significant Accounting Policies and Note 13 Business Combinations and Acquisition of Non-Controlling Interests to the accompanying consolidated financial statements in Item 18 for further discussion.

**Financing Activities**

On a consolidated basis, net cash used in financing activities amounted to Php55,322 million in 2010, an increase of Php35,029 million, or 173%, as compared with Php20,293 million in 2009 resulting largely from the combined effects of the following: (1) lower proceeds from the issuance of long-term debt and notes payable by Php36,743 million in 2010; (2) lower avilment of capital expenditures under long-term financing by Php3,240 million; (3) higher cash dividend payments by Php1,794 million; (4) higher interest payments by Php341 million; (5) lower repayments of long-term debt and notes payable by Php4,583 million; (6) lower share buyback by Php1,646 million; and (7) lower settlement of derivative financial instruments by Php818 million. The net cash used in financing activities in 2008 was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments, interest payments and buyback of PLDT's common stock.

**Debt Financing**

Additions to our consolidated debt, including notes payable, totaled Php7,246 million and Php43,989 million for the years ended December 31, 2010 and 2009, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php14,645 million and Php5,580 million, respectively, in 2010 and Php19,228 million and Php5,239 million, respectively, in 2009.

Our consolidated long-term debt decreased by Php6,804 million, or 7%, to Php89,646 million in 2010, largely due to debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S.

106

---

**Table of Contents**

dollar to Php43.81 in December 31, 2010 from Php46.43 in December 31, 2009, partially offset by drawings from our term loan facilities. The debt levels of PLDT and Smart decreased by 9% and 5% to Php49,017 million and Php40,514 million, respectively, as at December 31, 2010 as compared with December 31, 2009.

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The amount of Php2,500 million remained outstanding as at December 31, 2010.

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance Smart's capital expenditures for network improvement and expansion. The amount of Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2010.

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011 and Tranche B amounting to Php1,000 million to be issued in multiple drawdowns of Php250 million each, all of which are payable in full in five years from their respective issue dates. As at March 29, 2011, Php1,250 million has been drawn from this facility.

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year rate notes amounting to Php865 million. Proceeds from the facilities will be used to finance capital expenditures and refinance existing debt obligations which were also used to finance service improvements and expansion programs.

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

Approximately Php63,969 million principal amount of our consolidated outstanding long-term debt as at December 31, 2010 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php39,410 million is attributable to Smart, Php24,443 million to PLDT, and the remainder to ePLDT.

For further details on our long-term debt, see Note 20 Interest-bearing Financial Liabilities Long-term Debt to the accompanying consolidated financial statements in Item 18.

**Debt Covenants**

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

Please see Note 20 Interest-bearing Financial Liabilities Debt Covenants to the accompanying consolidated financial statements in Item 18 for a detailed discussion of our debt covenants.

**Financing Requirements**

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

Consolidated cash dividend payments amounted to Php41,080 million in 2010, an increase of Php1,794 million, or 5%, as compared with Php39,286 million paid to shareholders in 2009. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our



**Table of Contents**

2010 core earnings per share. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately a 100% payout of our 2009 core earnings per share.

On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 core earnings per share.

See Item 3 Key Information Dividends Declared and Dividends Paid and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for further information on our dividend payments.

*Off-Statement of Financial Position Arrangements*

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

*Equity Financing*

Through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million in each of 2010 and 2009 from this source. PLDT raised Php15 million from the exercise by certain officers and executives of stock options in 2009.

As part of our goal to maximize returns to our shareholders, we obtained board of directors approval for a share buyback program of up to five million shares of PLDT s common stock, representing approximately 3% of PLDT s total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT s common stock, representing approximately 1% of PLDT s outstanding shares of common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2010. We had acquired a total of approximately 2.68 million shares of PLDT s common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. The effect of the acquisition of shares of PLDT s common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the years ended December 31, 2010 and 2009. Our weighted average number of common shares was approximately 186.8 million and 186.9 million in the years ended December 31, 2010 and 2009, respectively. Please see Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchaser and Note 8 Earnings Per Common Share, Note 19 Equity and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18 for further details.

**Table of Contents****Contractual Obligations and Commercial Commitments****Contractual Obligations**

The following table shows our consolidated contractual undiscounted obligations outstanding as at December 31, 2010:

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years (in million pesos)	3-5 years	
<b>December 31, 2010</b>					
<i>Debt</i> <sup>(1)</sup> :	113,394	6,569	51,308	33,978	21,539
Principal	92,590	6,206	38,263	29,335	18,786
Interest	20,804	363	13,045	4,643	2,753
<i>Lease obligations:</i>	8,003	4,383	1,710	948	962
Operating lease	7,959	4,353	1,697	947	962
Finance lease	44	30	13	1	
<i>Unconditional purchase obligations</i> <sup>(2)</sup>	797	271	263	263	
<i>Other obligations:</i>	68,714	50,247	13,895	683	3,889
Derivative financial liabilities <sup>(3)</sup> :	4,173		1,667	674	1,832
Long-term currency swaps	4,173		1,667	674	1,832
Various trade and other obligations:	64,541	50,247	12,228	9	2,057
Suppliers and contractors	32,997	20,957	12,040		
Utilities and related expenses	16,477	16,446	10	3	18
Employee benefits	3,853	3,853			
Customers deposits	2,223		178	6	2,039
Dividends	2,086	2,086			
Carriers	1,866	1,866			
Others	5,039	5,039			
<b>Total contractual obligations</b>	<b>190,908</b>	<b>61,470</b>	<b>67,176</b>	<b>35,872</b>	<b>26,390</b>

<sup>(1)</sup> Consist of notes payable and long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.

<sup>(2)</sup> Based on the Amended ATPA with AIL.

<sup>(3)</sup> Gross liabilities before any offsetting application.

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2010 and 2009, please see Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

**Commercial Commitments**

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,145 million and Php1,317 million as at December 31, 2010 and 2009, respectively. These commitments will expire within one year.

**Impact of Inflation and Changing Prices**

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2010 was 3.8% as compared with 3.2% in 2009. Moving forward, we expect inflation to increase, which may have an adverse impact on our operations.

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

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors, Key Officers and Advisors**

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

<b>Name</b>	<b>Age</b>	<b>Period during which individual has served as such</b>
Manuel V. Pangilinan	64	November 24, 1998 to present
Napoleon L. Nazareno	61	November 24, 1998 to present
Donald G. Dee <sup>(1)</sup>	64	September 30, 2008 to December 5, 2010
Helen Y. Dee	66	June 18, 1986 to present
Ray C. Espinosa	54	November 24, 1998 to present
Tatsu Kono	58	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J. <sup>(2)</sup>	70	November 24, 1998 to present
Takashi Ooi	49	November 6, 2007 to present
Juan B. Santos <sup>(3)</sup>	72	January 25, 2011 to present
Oscar S. Reyes	64	April 5, 2005 to present
Albert F. del Rosario <sup>(4)</sup>	71	November 24, 1998 to present
Pedro E. Roxas <sup>(2)</sup>	54	March 1, 2001 to present
Alfred V. Ty <sup>(2)</sup>	43	June 13, 2006 to present
Tony Tan Caktiong	58	July 8, 2008 to present
Ma. Lourdes C. Rausa-Chan <sup>(5)</sup>	57	March 29, 2011 to present

<sup>(1)</sup> Resigned effective December 6, 2010.

<sup>(2)</sup> Independent Director.

<sup>(3)</sup> Elected effective January 25, 2011.

<sup>(4)</sup> Resigned effective March 25, 2011.

<sup>(5)</sup> Elected effective March 29, 2011.

The name, age, position and period of service of the key officers and advisor of PLDT as at February 28, 2011 are as follows:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>	<b>Period during which individual has served as such</b>
Manuel V. Pangilinan	64	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno	61	President and Chief Executive Officer	February 19, 2004 to present
		President and Chief Executive Officer of Smart	January 2000 to present
Ray C. Espinosa	55	Regulatory Affairs and Policies Head	March 4, 2008 to present
Ma. Lourdes C. Rausa-Chan	57	Corporate Secretary	November 24, 1998 to present
		Senior Vice President Corporate Affairs and Legal Services Head	January 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present



Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Anabelle L. Chua	50	Senior Vice President Corporate Finance and Treasury Head Treasurer Chief Financial Officer of Smart	February 26, 2002 to present March 1, 1998 to present February 1, 1999 to present December 1, 2005 to present
Ernesto R. Alberto	49	Senior Vice President Customer Sales and Marketing Head Corporate Business Head	May 15, 2003 to present February 1, 2008 to present May 15, 2003 to January 31, 2008
Rene G. Bañez	55	Senior Vice President Administration and Materials Management Head Chief Governance Officer	January 25, 2005 to present January 1, 2008 to present October 5, 2004 to March 3, 2008
Jun R. Florencio	55	Senior Vice President Internal Audit and Fraud Risk Management Head Audit and Assurance Head	June 14, 2005 to present February 16, 2006 to present September 1, 2000 to February 15, 2006
Menardo G. Jimenez, Jr.	47	Senior Vice President  Human Resources Head and Business Transformation Office Head Business Transformation Office Revenue Team Head Retail Business Head Corporate Communications and Public Affairs Head	December 9, 2004 to present  August 1, 2010 to present  January 1, 2008 to July 2010  June 16, 2004 to December 31, 2007 December 1, 2001 to June 15, 2004

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>	<b>Period during which individual has served as such</b>
George N. Lim	58	Senior Vice President	February 26, 1999 to present
		Network Services Assurance Head	October 16, 2010 to present
		Business Transformation Office	January 1, 2008 to present
		Network Team Head	
Alfredo S. Panlilio <sup>(1)</sup>	47	Network Services Head	February 1, 2003 to December 31, 2007
		Senior Vice President	May 8, 2001 to December 15, 2010
		International and Carrier Business Head	February 1, 2003 to June 15, 2004
		PLDT Global Corp. President	June 16, 2004 to December 15, 2010
Claro Carmelo P. Ramirez	50	Senior Vice President	July 1, 1999 to present
		Office of the President and CEO	January 1, 2008 to present
		Consumer Affairs Head	December 5, 2005 to December 31, 2007
		International and Carrier Business Head	June 16, 2004 to December 4, 2005
Victorico P. Vargas <sup>(2)</sup>	59	Retail Business Head	February 1, 2003 to June 15, 2004
		Senior Vice President	February 15, 2000 to August 1, 2010
		Human Resources Head	February 15, 2000 to August 1, 2010
		International and Carrier Business Head	March 1, 2007 to December 31, 2007
June Cheryl A. Cabal	37	Business Transformation Office Head	January 1, 2008 to August 1, 2010
		First Vice President	May 6, 2008 to present
		Financial Reporting and Controllership Head	November 15, 2006 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
Christopher H. Young	53	Chief Financial Advisor	November 24, 1998 to present

<sup>(1)</sup> *Availed of the MRP effective at the close of business hours on December 15, 2010.*

<sup>(2)</sup> *Availed of the MRP effective at the close of business hours on August 1, 2010.*

Under the Shareholders Agreement entered into among the FP Parties, NTT Communications and NTT-UK on September 28, 1999, as amended by the Cooperation Agreement dated January 31, 2006, NTT Communications is entitled to nominate two directors to the PLDT board of directors and the FP Parties are entitled to nominate six directors. The Shareholders Agreement also entitles NTT Communications to nominate two directors to the board of directors of Smart and, subject to specified conditions, one member to the board of directors of all other PLDT subsidiaries. However, as a result of the Cooperation Agreement, in respect of NTT Communications' right to nominate two directors to each of the board of directors of PLDT and Smart, respectively, NTT Communications and the FP Parties agreed to vote as a PLDT shareholder, lobby the directors of PLDT and otherwise use reasonable efforts to procure a shareholders' vote in favor of replacing on each of the board of directors of PLDT and Smart,

respectively, one NTT Communications nominee with one NTT DoCoMo nominee. Under the Shareholders Agreement, NTT Communications is also entitled to appoint members or advisors of certain PLDT management and board committees, including the audit, governance and nomination, executive compensation and technology strategy committees described below under Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, and as a result of the Cooperation Agreement, the FP Parties and NTT Communications agreed to use reasonable efforts to procure that NTT DoCoMo be entitled to appoint one individual, who may be replaced at any time, to attend any board committee of PLDT as a member, advisor or observer. Moreover, the Cooperation Agreement provides that upon NTT Communications, NTT DoCoMo and their subsidiaries owning in the aggregate 20% or more of the shares of PLDT's common stock and for as long as NTT Communications, NTT DoCoMo and their subsidiaries continue to own in the aggregate 17.5% of the shares of PLDT's common stock then outstanding, NTT DoCoMo will be entitled to additional rights under the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, including the right to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Pursuant to publicly available filings made with the PSE, as at February 28, 2011, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of the outstanding shares of PLDT's common stock. As a result, NTT DoCoMo is currently entitled to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Under the Shareholders Agreement and the Cooperation Agreement, each party has agreed, under certain circumstances, to vote its shares of common stock in favor of the nominees designated by the other parties. For more information about the Cooperation Agreement, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The business address of each of the other directors, key officers and advisors identified above is the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

**Table of Contents**

The following is a brief description of the business experiences of each of our directors, key officers and advisors for at least the past five years.

**Mr. Manuel V. Pangilinan** has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and Chief Executive Officer, or CEO, from November 1998 to February 2004. He is the Chairman of the Governance and Nomination and Technology Strategy Committees of the Board of Directors of PLDT. He also serves as Chairman of Smart, PCEV, ePLDT, SPi, SPi CRM, MPIC, Landco Pacific Corporation, Maynilad Water Services, Inc., Philex Mining Corporation, Manila North Tollways Corporation, Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), and Davao Doctors, Inc. He is also a director and the President and Chief Executive Officer of Meralco.

Mr. Pangilinan founded First Pacific in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as Chief Executive Officer and Managing Director. He also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College, PLDT-Smart Foundation, Inc., the Hongkong Bayanihan Trust and the Philippine Business for Social Progress, the Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. In February 2007, he was named the President of the Samahang Basketbol ng Pilipinas, a newly formed national sport association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur Boxing Association of the Philippines, the governing body of amateur boxers in the country.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the President Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Management Man of the Year by the Management Association of the Philippines (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), Honorary Doctorate in Humanities by the Xavier University (2007), and Global Filipino Executive of the Year (Asia CEO Awards 2010). He was also voted as Corporate Executive Officer of the Year (Philippines), Best Executive (Philippines) at the 2007 and 2008 Best-Managed Companies and Corporate Governance Polls conducted by *Asiamoney*.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance and Commerce at the University of Pennsylvania.

**Mr. Napoleon L. Nazareno** has been a director of PLDT since November 24, 1998 and is a member of the TSC of the Board of Directors of PLDT. He was appointed as President and Chief Executive Officer of PLDT on February 19, 2004 and is concurrently the President and Chief Executive Officer of Smart, PCEV and CURE, positions he has held since January 2000, November 2004 and April 2008, respectively. He also serves as Chairman of several subsidiaries of Smart including Wolfpac, SBI, I-Contacts. His other directorships include Mabuhay Satellite where he is Chairman, ACeS Philippines where he is also the President, PLDT Global, ePLDT, SPi, SPi CRM and Meralco. He is a non-executive director of First Pacific.

Mr. Nazareno is also a board member of the GSM Association Worldwide and a director of the Wireless Applications Community, an international alliance of telecommunications companies. Mr. Nazareno is also the Chairman of the Board of Trustees and Governors of Asian Institute of Management.

Mr. Nazareno's business experience spans several countries in over 30 years and his exposure cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last decade, telecommunications and information technology. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and



**Table of Contents**

Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. In February 2006, he became part of the Private Sector Advisory Board of the Commission on Information and Communications Technology, under the Office of the President of the Philippines. Mr. Nazareno is also a board member of GSM Association Worldwide since November 2004. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by *Asiamoney*.

Mr. Nazareno received his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France.

**Ms. Helen Y. Dee** has been a director of PLDT since June 18, 1986. She is the Chairman or a director of several companies engaged in the banking, insurance and real property businesses and the President and/or Chief Executive Officer of GPL Holdings, Inc., House of Investments, Inc., Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation and Chairperson of Rizal Commercial Banking Corporation, RCBC Savings Bank and Malayan Insurance Company. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

**Mr. Tatsu Kono** has been a director of PLDT since March 28, 2006. He is a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees and advisor to the Audit Committee of the Board of Directors of PLDT. He is also the Chief Operating Advisor of PLDT. He joined NTT DoCoMo in 2000 and served as Executive Director of the Global Investment Group. In 2001, he was appointed as a member of the Board of Directors and Vice President In-Charge for Sales and Marketing of KG Telecom. He has been a Managing Director of Corporate Sales Department, Corporate Marketing Division of NTT DoCoMo since 2003. Prior to that, he occupied various management positions in Kokusai Denshin Denwa Co., Ltd. (KDD). Mr. Kono received his Bachelor of Law Degree from the Waseda University.

**Rev. Fr. Bienvenido F. Nebres, S.J.** has been a director of PLDT since November 24, 1998. He is the Chairman of the Audit Committee and a member of the Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the President and a member of the Board of Trustees of the Ateneo de Manila University, the Chairman of the Board of Trustees of the Center for Leadership and Change, Inc., the Vice Chairman of the Board of Trustees of the Asian Institute of Management and a member of the Board of Trustees of several private educational institutions including Loyola School of Theology, and Sacred Heart School - Jesuit Cebu City. He is also a member of the Board of Trustees of Manila Observatory and Philippine Institute of Pure and Applied Chemistry. Rev. Fr. Nebres received his Ph.D in Mathematics from the Stanford University.

**Mr. Takashi Ooi** has been a director of PLDT since November 6, 2007. He built his career in NTT and its subsidiaries NTT Communications and NTT America. He is presently the Senior Vice President for Global Business of NTT Communications, in charge of product/service development and global network design/engineering and proposal/installation/delivery of global network and solutions for global multi-national companies. Prior to that, he held management positions in various departments of NTT Communications and served as Vice President for Product Management Global Division of NTT Communications, Director of NTT America and Technical Advisor to Telegent, Inc. Mr. Ooi obtained his Master of Science Degree in Physics and Master of Business Administration Degree from the University of Tokyo and Boston University, respectively.

**Mr. Oscar S. Reyes** has been an independent director of PLDT since April 5, 2005. Effective August 2010, his status changed to a regular director in view of his appointment as Senior Executive Vice President and Chief Operating Officer/Chief Energy Adviser of Meralco. He serves as a member of the TSC of the Board of Directors of PLDT. He is the Chairman of Link Edge, Inc. and MRL Gold Phils., Inc. and a director/independent director of various public companies and private firms engaged in electricity, banking, energy, financial and business advisory services, manufacturing, mining, shipping, real estate and related activities.

Mr. Reyes was the Country Chairman of the Shell Companies in the Philippines from 1997 to 2001 and concurrently the Managing Director of Shell Philippines Exploration B.V. until 2002. From 1997 to 2004, he was the Senior Management Adviser of Shell Exploration B.V. and from 2002 to 2006, the CEO Adviser of Pilipinas Shell

**Table of Contents**

Petroleum Corporation. Mr. Reyes completed the Master in Business Administration Program of the Ateneo Graduate School of Business and the Program in Management Development of Harvard Business School, and holds a Diploma in International Business from the Waterloo Lutheran University, Canada.

**Mr. Pedro E. Roxas** has been a director of PLDT since March 1, 2001. He serves as a member of the Governance and Nomination, Audit and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman and/or Chief Executive Officer/President of various business organizations in the fields of agri-business, sugar manufacturing and real estate development including Roxas Holdings Inc., Roxas and Company, Inc., Roxaco Land Corporation, Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc., Roxol Bioenergy Corporation, Fuego Land Corporation and Hawaiian Philippine Sugar Company, an independent director of Meralco, and a director of Brightnote Assets Corporation and BDO Private Bank. Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

**Mr. Juan B. Santos** has been a director of PLDT since January 25, 2011. He is the Chairman of the Social Security Commission, or SSC, and a member of the Board of Directors of Alaska Milk Corporation, FPHC, Grepalife Financials, Inc., Philex Mining Corporation and Zuellig Group, Inc., a member of the Board of Advisors of Coca Cola Bottlers Phils., Inc. and East-West Seeds Co., Inc., a trustee of St. Lukes Medical Center, and a consultant of the Marsman-Drysdale Group of Companies.

Mr. Santos retired as Chief Executive Officer of Nestle Philippines, Inc. (NPI) in 2003 and continued to serve as Chairman of NPI until 2005. Prior to his appointment as President and CEO of NPI, he was CEO of NPI of the Nestle Group of Companies in Thailand and Nestle Singapore Pte Ltd. He served as Secretary of Trade and Industry from February 2005 to July 2005. He obtained his Bachelor of Science Degree in Business Administration from Ateneo de Manila University and pursued post graduate studies at the Thunderbird Graduate School of Management in Arizona, U.S.A. and Advanced Management Course at IMD in Lausanne, Switzerland.

**Mr. Tony Tan Caktiong** has been a director of PLDT since July 8, 2008. He is the Chairman and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fastfood business, which owns and operates a chain of restaurants nationwide and abroad. He is also the Chairman of Jollibee Foundation, a director of First Gen Corporation and a member of the Board of Trustees of Temasek Foundation and St. Luke's Medical Center. Mr. Tan Caktiong honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

**Mr. Alfred V. Ty** has been a director of PLDT since June 13, 2006. He serves as a member of the Audit, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Lexus Manila, Inc. and Asia Pacific Top Management International Resources, Corp. (Marco Polo Plaza Cebu), the Vice Chairman of Toyota Motors Philippines Corporation, the President of Federal Land, Inc., a director of Global Business Power Corp. and the Corporate Secretary of Metropolitan Bank and Trust Company and Metrobank Foundation, Inc. Mr. Ty received his Bachelor of Science Degree in Business Administration from the University of Southern California.

**Atty. Ray C. Espinosa** has been a director of PLDT since November 24, 1998. He is the Head of the Regulatory Affairs and Policies Group of PLDT since March 2004. He also serves as the President and Chief Executive Officer of MediaQuest Holdings, Inc., ABC Development Corporation (TV5), Mediascape, Inc. (Cignal TV), Nation Broadcasting Corporation and other subsidiaries of MediaQuest Holdings, Inc. and is the Vice Chairman of Philweb, and the Board of Trustees of the PLDT Beneficial Trust Fund. He is a director of several companies engaged in electricity, mining, other public utility and media businesses.

Atty. Espinosa served as President and Chief Executive Officer of ePLDT from August 21, 2000 until April 15, 2010. Prior to joining PLDT, he was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2000. He topped the Philippine Bar examination in 1982 after graduating Salutatorian of Law Class 1982 from the Ateneo de Manila University and received his Master of Laws Degree from the University of Michigan Law School.

**Atty. Ma. Lourdes C. Rausa-Chan** was appointed as director of PLDT on March 29, 2010. She has been serving as Corporate Secretary, Corporate Affairs and Legal Services Head and Chief Governance Officer of PLDT since November 1998, January 1999 and March 2008, respectively. She also serves as Corporate Secretary of PCEV and



several subsidiaries of PLDT. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of  
114

---

**Table of Contents**

Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Atty. Rausa-Chan obtained her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Except for Messrs. Tatsu Kono and Takashi Ooi who are Japanese citizens, all of the other directors/independent directors are Filipino citizens.

**Ms. Anabelle L. Chua**, Treasurer and Corporate Finance and Treasury Head, concurrently holds the position of Chief Financial Officer of Smart since 2006. She holds directorships in Smart and several subsidiaries of PLDT and Smart including ePLDT, PCEV, Wolfpac, SBI, CURE, Airborne Access, SHI, and Chikka Holdings Limited. She is a member of the Board of Trustees of the PLDT Beneficial Trust Fund. She has over 20 years of experience in the areas of corporate finance, treasury, financial control and credit risk management, and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

**Mr. Ernesto R. Alberto**, Customer Sales and Marketing Group Head, leads all revenue generation relationship initiatives of PLDT including product/market development, product management, marketing, sales and distribution, and customer relationship management. He is the Chairman, director and/or President of Subicel, Clarktel, Philcom, Maratel, Telesat, SBI-Cruztelco, BCC and Mabuhay Satellite, SNMI and NTT Communications Phils. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. Mr. Alberto obtained his Master's Degree in Economic Research from the University of Asia and the Pacific.

**Mr. Rene G. Bañez**, Administration and Materials Management Group Head, was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Support Services and Tax Management Group Head of PLDT from January 1999 to January 2001. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for 3 years until December 1998. He holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Laws Degree from the Ateneo de Manila University.

**Mr. Jun R. Florencio**, Internal Audit and Fraud Risk Management Head, has over 25 years of work experience in the areas of external and internal audit, revenue assurance, credit management, information technology, financial management and controllership. He was the Financial Controller of Smart for four years before he joined PLDT in April 1999. He held various positions in the finance organization of another telecommunications company prior to joining Smart. Mr. Florencio obtained his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Santo Tomas and attended the Management Development Program of the Asian Institute of Management.

**Mr. Menardo G. Jimenez, Jr.**, Human Resources Group Head and concurrently Business Transformation Office Head, was Revenue Team Head of the Business Transformation Office from January 2008 to July 2010, the Retail Business Head of PLDT from June 2004 to December 31, 2007 and, prior to that, the Corporate Communications and Public Affairs Head. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. He won the first CEO Excel Awards (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communications strategies in managing the PLDT retail business team to meet its targets and achieve new heights in the landline business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez obtained his AB Economics Degree from the University of the Philippines.

**Mr. George N. Lim**, Network Service Assurance Team Head and concurrently Network Team Head of the Business Transformation Office, has over 30 years of work experience in telecommunications management. He was the Network Services Head from February 2003 to December 2007, Network Development and Provisioning Head from February 1999 to January 2003 and Marketing Head from December 1993 to February 1999. Mr. Lim holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Science Degree in Electrical Engineering from the Mapua Institute of Technology and Master of Science Degree in Industrial Economics from the University of

Asia and Pacific (formerly Center for Research and Communication).

**Table of Contents**

**Mr. Claro Carmelo P. Ramirez** has over 20 years of work experience in the field of marketing. Prior to joining PLDT, he held various managerial positions in Colgate Palmolive Philippines, Inc., and served as Associate Director for Global Business Development of Colgate Palmolive Company in New York and as Marketing Director of Colgate Palmolive Argentina, S.A.I.C. He holds directorships in Intelligent Network Plus, Inc. and Sidera Technologies, Inc. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts Degree Major in Economics.

**Ms. June Cheryl A. Cabal**, Controller and Financial Reporting and Controllershship Head, is also a director and the chief financial officer/treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. She is also the Chief Finance Officer of the Philippine Disaster Recovery Foundation. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. In March 2010, she was appointed as a member of the Financial Reporting Standards Council of the Philippines. Ms. Cabal obtained her Bachelor of Science Degree in Accountancy from De La Salle University and Master in Business Management Degree from the Asian Institute of Management.

**Mr. Christopher H. Young** is our chief financial advisor. He worked in PricewaterhouseCoopers in London and Hong Kong from 1979 until 1987, at which time he joined First Pacific in Hong Kong as group financial controller. He joined Metro Pacific Corporation in 1995 as finance director, a position he held until he joined us in November 1998.

The following is a brief description of the business experience of the other member of senior management of PLDT as at February 28, 2011:

**Mr. Rolando G. Peña** was designated, in January 2011, to head the evaluation, analysis, execution of the accelerated network build-out program encompassing fixed, wireless, broadband and IT network of PLDT and Smart. Prior to that, he was Head of Customer Service Assurance Group since January 2008 and was responsible for overseeing all customer fulfillment services, including customer service and network engineering and operations. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña holds directorships in some subsidiaries of PLDT and Smart. He obtained his Electronics and Communications Engineering Degree from Pamantasan ng Lungsod ng Maynila.

The following is a list of directorships in other private and public companies of the directors/independent directors named below:

Name of Director	Name of Companies	
	Public	Private
Helen Y. Dee	EEI Corporation National Reinsurance Corporation of the Philippines (Chairman) Petro Energy Resources Corporation Rizal Commercial Banking Corporation (Chairman) Seafront Resources Corporation Bankard, Inc.	AY Holdings, Inc. Great Life Financial Assurance Corporation Great Pacific Life Assurance Corp. Hi-Eisai Pharmaceuticals, Inc. (Chairman) Honda Cars, Kalookan  Honda Cars Philippines, Inc. Isuzu Philippines, Inc. La Funeraria Paz, Inc. (Chairman) Landev Corp. (Chairman) Malayan Insurance Company (Chairman) Manila Memorial Park Cemetery, Inc. (Chairman) Mapua Information Technology Center, Inc. (Chairman) Merchants Bank (Chairman) MICO Equities, Inc. Pan Malayan Express

Pan Malayan Management and Investment Corporation (Vice Chairman)  
Pan Malayan Realty Corp. (Chairman)  
RCBC Forex Brokers Corp.(Chairman)  
RCBC Savings Bank (Chairman)  
South Western Cement Corporation (Chairman)  
Xamdu Motors, Inc. (Chairman)

Ray C. Espinosa      Cyber Bay Corporation

ABC Development Corporation

**Table of Contents**

<b>Name of Director</b>	<b>Name of Companies</b>	
	<b>Public</b>	<b>Private</b>
	Lepanto Consolidated Mining Company (Independent Director)	Beacon Electric Asset Holdings, Inc.
	Metro Pacific Investments Corporation Manila Electric Company Philweb Corporation (Vice Chairman)	Bonifacio Communications Corporation ePDS, Inc. Meralco PowerGen Corporation Metro Pacific Assets Holdings, Inc. Metro Pacific Resources, Inc. Philippine Telecommunications Investment Corporation
Oscar S. Reyes	Alcorn Gold Resources, Inc. (Independent Director) Ayala Land, Inc. (Independent Director) Bank of the Philippine Islands Basic Energy Corporation (Independent Director) Manila Water Company, Inc. (Independent Director) Pepsi Cola Products Philippines, Inc. (Independent Director)	Mindoro Resources Ltd.  Petrolift, Inc. (Independent Director) Smart Communications, Inc. Sun Life Dollar Advantage Fund, Inc. (Independent Director) Sun Life Dollar Abundance Fund, Inc. (Independent Director) Sun Life Financial Plans, Inc. (Independent Director)

**Terms of Office**

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

**Family Relationships**

None of the directors, key officers and advisors of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

**Compensation of Key Management Personnel**

The aggregate compensation paid to our key officers and directors named above, as a group, for 2010 amounted to approximately Php877 million.

**Table of Contents**

The following table below sets forth the aggregate amount of compensation paid in 2010 and 2009 and estimated amount of compensation expected to be paid in 2011 to: (1) the President and Chief Executive Officer, Napoleon L. Nazareno and four most highly compensated officers of PLDT, as a group, namely; Menardo G. Jimenez, Jr., Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan in 2010 and 2011, and Victorico P. Vargas, Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan in 2009; and (2) all other key officers, other officers and directors, as a group.

	<b>2011 Estimate</b>	<b>2010 Actual (in millions)</b>	<b>2009</b>
President and CEO <sup>(1)</sup> and four most highly compensated key officers:			
Salary <sup>(2)</sup>	Php55	Php51	Php47
Bonus <sup>(3)</sup>	14	12	10
Other compensation <sup>(4)</sup>	46	225	52
	115	288	109
All other key officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated key officers):			
Salary <sup>(2)</sup>	227	232	204
Bonus <sup>(3)</sup>	62	61	54
Other compensation <sup>(4)</sup>	215	1,087	246
	Php504	Php1,380	Php504

*(1) The President and CEO receives compensation from Smart but not from PLDT.*

*(2) Basic monthly salary.*

*(3) Includes longevity pay, mid-year bonus, 13<sup>th</sup> month and Christmas bonus.*

*(4) Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both individual and group/team performance and is tied to the achievement of Corporate/Unit/Customer Satisfaction Objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. The 2010 other compensation includes LTIP payments during the year.*

Each of the directors of the Company is entitled to a director's fee for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved an increase in director's board meeting attendance fees to Php200 thousand from Php125 thousand and board committee meeting attendance fees to Php75 thousand from Php50 thousand. The attendance fees for directors were last adjusted in July 1998. The Executive Compensation Committee recommended the increase taking into consideration PLDT's profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that

PLDT's directors' remuneration, consisting only of fees for meeting attendance, and/or retainer fees and profit share were below the median of directors' remuneration among participating companies in the survey.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of per diems paid to the directors for their attendance in Board and Board Committee meetings is included in other compensation in the above table. The total amount of per diems paid in 2010 and 2009 were approximately Php35 million and Php36 million, respectively. The total amount of per diems estimated to be paid in 2011 is approximately Php39 million.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

**Long-term Incentive Plan**

On August 28, 2006, the PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, 2007 to 2009 LTIP, upon endorsement of the ECC, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the 2007 to 2009



**Table of Contents**

Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle. The 2007 to 2009 LTIP payments were made in April 2010.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the Employees Compensation Commission and Board of Directors, and is based on profit targets covering the Performance Cycle. The cost of the new LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets.

The LTIP was a cash plan that was intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group, and administered by the ECC which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and taking into account such participant's seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million, respectively for the years ended December 31, 2009 and 2008. The outstanding LTIP liability amounted to Php4,582 million as at December 31, 2009, which was paid in April 2010. Total outstanding liability and fair value of the 2010 to 2012 LTIP amounted to Php1,392 million as at and for the year ended December 31, 2010. See Note 3 Management's Use of Judgments, Estimates and Assumptions, Note 5 Income and Expenses, Note 23 Accrued and Other Current Liabilities and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

There are no other warrants or options held by PLDT's officers or directors either singly or collectively.

**Share Ownership**

The following table sets forth information regarding ownership of our common stock and preferred stock, as at February 28, 2011, by our continuing directors, key officers and advisors. Each individual below owns less than 1% of our outstanding common and preferred shares.

Name of Owner	Shares of Common Stock	Shares of Preferred Stock
Manuel V. Pangilinan	227,450 <sup>(1)</sup>	360
Napoleon L. Nazareno	13,927 <sup>(1)</sup>	495
Helen Y. Dee	98	180
Ray C. Espinosa	18,743 <sup>(1)</sup>	
Takashi Ooi	1	
Tatsu Kono	100	
Rev. Fr. Bienvenido F. Nebres, S.J.	2	
Oscar S. Reyes	1	360
Albert F. del Rosario <sup>(2)</sup>	140,005 <sup>(3)</sup>	2,100
Pedro E. Roxas	21	540
Juan B. Santos <sup>(4)</sup>	2	360
Alfred V. Ty	1	
Tony Tan Caktiong	1	50
Ma. Lourdes C. Rausa-Chan	699 <sup>(1)</sup>	350
Ernesto R. Alberto	9,000 <sup>(1)</sup>	
Rene G. Bañez	1	540
Anabelle L. Chua	13,878 <sup>(1)</sup>	
Jun R. Florencio	15	530
Menardo G. Jimenez, Jr.	22	

George N. Lim	5,356 <sup>(1)</sup>	360
Claro Carmelo P. Ramirez	11,500	
June Cheryl A. Cabal		
Christopher H. Young	54,313 <sup>(1)</sup>	

*(1) Includes PLDT common shares that have been lodged with the Philippine Depository and Trust Co., or PDTC.*

*(2) Resigned effective March 25, 2011.*

*(3) Out of the 140,005 common shares, 140,004 common shares are under the name of Albert F. del Rosario and/or Margaret Gretchen del Rosario.*

*(4) Elected effective January 25, 2011.*

## **Table of Contents**

The aggregate number of shares of common and preferred stock directly and indirectly owned by directors, key officers and advisors listed above, as at February 28, 2011, was 495,136 and 6,225 respectively, or approximately 0.265% and less than 0.001% of PLDT's outstanding shares of common and preferred stock, respectively.

### **Board of Directors Independent Directors**

At least three of our directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Pedro E. Roxas and Alfred V. Ty, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and Manual on Corporate Governance pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

### **Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees**

Our board of directors is authorized under the by-laws to create committees, as it may deem necessary. We currently have four board committees, namely, the audit, governance and nomination, executive compensation and technology strategy committees, the purpose of which is to assist our board of directors. Each of these committees has a board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board of directors.

#### *Audit Committee*

Our audit committee is composed of three members, all of whom are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Alfred V. Ty. Mr. Tatsu Kono, a non-independent member of our board of directors, Mr. Roberto R. Romulo, an independent member of our advisory board/committee, and Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, serve as advisors to the audit committee. All of the members of our audit committee are financially literate and Ms. Corazon S. de la Paz-Bernardo, an advisor to the audit committee, is an accounting and financial management expert.

As provided for in the audit committee charter, the purpose of the audit committee is to assist our board of directors in fulfilling its oversight responsibilities for: (i) PLDT's accounting and financial reporting principles and policies and internal audit controls and procedures; (ii) the integrity of PLDT's financial statements and the independent audit thereof; (iii) PLDT's compliance with legal and regulatory requirements; and (iv) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;

- to select and appoint the external auditors and to remove or replace the external auditors;

- to review and approve in consultation with the head of the internal audit organization and the chief financial advisor the fees charged by the external auditors for audit and non-audit services;

- to pre-approve all audit and non-audit services to be provided by and all fees to be paid to the external auditors;

- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor's independence;



**Table of Contents**

to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT's accounts is rotated at least once every five years;

to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;

to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and

to resolve disagreements between management and the external auditors regarding financial reporting.

The audit committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

*Audit Committee Report*

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2010 that:

Each voting member of the audit committee is an independent director as determined by the board of directors;

In the performance of their oversight responsibilities, the audit committee has reviewed and discussed our financial statements as at and for the year ended December 31, 2009 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our financial statements with generally accepted accounting principles;

The audit committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;

The audit committee has received written disclosures and the letter from SGV & Co. pursuant to Rule 3526 of the Public Company Accounting Oversight Board (Communication with Audit Committees Concerning Independence) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;

The audit committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The audit committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;

Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to our board of directors and our board has approved, the inclusion of our financial statements as at and for the year ended December 31, 2009 in our Annual Report to the Stockholders and to the Philippine SEC and U.S. SEC on Form 17-A; and

Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as our independent auditor.

*Governance and Nomination Committee*

Our GNC is composed of five voting members, all of whom are regular members of our Board of Directors and three non-voting members, including Former Chief Justice Artemio V. Panganiban, who serves as an independent non-voting member. Three of the voting members are independent directors namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Pedro E. Roxas. Two are non-independent directors namely, Mr. Tatsu Kono and

Mr. Manuel V. Pangilinan who is the chairman of this committee. Former Chief Justice Artemio V. Panganiban is the independent non-voting member; Mr. Menardo G. Jimenez, Jr., and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

## **Table of Contents**

The principal functions and responsibilities of our GNC are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;
2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring board appointment;
3. To identify the qualified nominees and recommend that the board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and
4. To provide an assessment on our board's effectiveness in the process of replacing or appointing new directors or members of the board committees.

### *Executive Compensation Committee*

Our ECC is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely Mr. Pedro E. Roxas, Rev. Fr. Bienvenido F. Nebres, S.J., and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Tatsu Kono and Mr. Albert F. del Rosario, who is chairman of this committee as at December 31, 2010. Mr. Menardo G. Jimenez, Jr. is the non-voting member.

The principal functions and responsibilities of our ECC are:

1. To provide guidance to and assist our board of directors in developing a compensation philosophy or policy consistent with our culture, strategy and control environment;
2. To oversee the development and administration of our compensation programs; and
3. To review and approve corporate goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives, and set the compensation level of our chief executive officer based on such evaluation.

### *Technology Strategy Committee*

Our TSC is composed of six members, all of whom are voting members. Five are non-independent directors, namely Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Atty. Ray C. Espinosa, Mr. Oscar S. Reyes and Mr. Tatsu Kono. Mr. Orlando B. Veja, a member of our advisory board/committee, is the non-voting member of this committee.

The principal functions and responsibilities of our TSC are:

1. To review and approve our technology strategy and roadmap, and to review and advise our board on major technology trends and strategies;
2. To evaluate and advise our board on actual and proposed technology investments and transactions;
3. To review and submit to the board recommendations regarding management's formulation and execution and overall performance in achieving technology-related strategic goals and objectives; and
4. To recommend to the board approaches to acquiring and maintaining technology positions and maximizing our access to relevant technologies, and to ensure optimized contribution of technology to our business strategy and growth targets.

Effective June 12, 2007, our board of directors dissolved the finance committee, since, for several years thereto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our board.

## **Directors and Officers Involvement in Certain Legal Proceedings**

The Company is not aware, and none of the directors/independent directors and officers or persons nominated for election to such positions has informed the Company, of any of the following events that occurred

122

---



**Table of Contents**

during the past five years:

- (b) any bankruptcy petition filed by or against any business of which a director/independent director or officer or person nominated for election as a director/independent director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (c) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or officer or person nominated for election as a director/independent director or officer, except as noted below;
- (d) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or officer or person nominated for election as a director/independent director or officer in any type of business, securities, commodities or banking activities; and

any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director/independent director or officer or person nominated for election as a director/independent director or officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

The following is a description of the complaints in which our director and President and Chief Executive Officer, Mr. Napoleon L. Nazareno and director and Corporate Secretary, Ms. Ma. Lourdes C. Rausa-Chan are respondents:

1. Mr. Napoleon L. Nazareno and other directors and officers of the former PDCP Bank and some officers of the BSP and Development Bank of the Philippines (hereinafter the Respondents ), were charged in a complaint docketed as I.S. No. 2004-631 filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. (the Complainants ) with the Department of Justice, or DOJ, for alleged syndicated estafa, estafa thru falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the Complainants alleged that the officers and directors of PDCP Bank deceived the Complainants to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the Complainants corporation. As stated in Mr. Nazareno s counter-affidavit, the charges against him are manifestly unmeritorious since he has not personally met the Complainants, nor is he a party to the questioned transactions and, as such, could not have deceived the Complainants in any manner. The complaint was referred to the Office of the Ombudsman, or OMB, by the DOJ on October 30, 2007 considering that some of the Respondents are public officers and the offenses charged were committed in the performance of their official functions.

Meanwhile, on July 23, 2008, the Complainants filed with the DOJ a Motion for Reconsideration of a Resolution of the DOJ dated September 7, 2007 dismissing their complaint. It appears that prior to forwarding the case records to the OMB, the DOJ has prepared a Resolution recommending the dismissal of all the charges against the Respondents but did not release the said Resolution to the parties because it wanted the OMB to conduct a review of the DOJ Resolution in view of the fact that some of the Respondents are public officers.

In an Order dated July 30, 2008, the OMB confirmed that it was conducting a review of the said DOJ Resolution for the abovestated reason and that its authority relative to the case forwarded to it by the DOJ is limited to conducting a review of the DOJ Resolution and not to conduct another preliminary investigation of the case.

In the OMB s Review and Recommendation dated November 28, 2008, the OMB approved the DOJ Resolution dated September 7, 2007 dismissing the complaint and referred the case to the DOJ for

appropriate action.

The Complainants filed separate Motions for Reconsideration before the DOJ and OMB on July 16, 2008 and December 1, 2009, respectively. On December 16, 2009, the DOJ issued a Resolution

**Table of Contents**

denying the Complainants Motion for Reconsideration for lack of merit. In response, the Complainants filed a Petition for Review with the Secretary of Justice on March 2, 2010. Mr. Nazareno and the other Respondents have filed their respective Comments to the petition, which remain pending to date with the Office of the Secretary of Justice.

With respect to the Complainants Motion for Reconsideration with the OMB, the latter issued an Order dated December 4, 2009 denying the same and affirming its Review and Recommendation of November 28, 2008. In response, the Complainants filed a Petition for Certiorari with the Court of Appeals ( CA ) on July 12, 2010. In a Resolution dated July 26, 2010, the CA dismissed the petition for lack of jurisdiction. The Complainants filed a Motion for Reconsideration on August 17, 2010. Acting on the said motion, the CA issued a Resolution dated September 1, 2010, requiring the Respondents to file their Comment to the motion. On September 28, 2010, the Respondents through counsel filed their Opposition to the Complainants Motion for Reconsideration. In a Resolution dated December 1, 2010, the CA noted the respective Comments and/or Opposition filed by the Respondents and considered the Complainants Motion for Reconsideration submitted for resolution.

2. Atty. Ma. Lourdes C. Rausa-Chan and other former corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation, are respondents in a complaint docketed as OMB C-C-04-0363-H (CPL No. C-04-1248), filed with the OMB. The complaint is for alleged: (a) violation of Republic Act No. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); (b) estafa through falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code; (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It relates to various tax credit certificates (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly, a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The complaints against Atty. Rausa-Chan involve the first two offenses only and in her capacity as corporate secretary of Metro Paper and Packaging Products, Inc. In the opinion of the legal counsel of Atty. Rausa-Chan, there are no legal and factual bases for her inclusion as respondent in this complaint. Atty. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. The case is still pending with the OMB.

**Employees and Labor Relations**

As at December 31, 2010, we had 28,770 employees within the PLDT Group, with 5,165, 7,395 and 16,210 employees in our wireless, fixed line and ICT groups, respectively. PLDT had 7,008 employees as at December 31, 2010, of which 26% were rank-and-file employees, 68% were management/supervisory staff and 6% were executives. This number represents a decrease of 535, or approximately 7%, from the staff level as at December 31, 2009, mainly as a result of the ongoing MRP. From a peak of 20,312 employees, as at December 31, 1994, PLDT s number of employees declined by 13,304 employees, or 65%, as at December 31, 2010.

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
PLDT Group	28,770	29,035	29,904
<i>Wireless</i>	<i>5,165</i>	<i>5,507</i>	<i>5,602</i>
<i>Fixed Line</i>	<i>7,395</i>	<i>7,947</i>	<i>7,813</i>
<i>ICT</i>	<i>16,210</i>	<i>15,581</i>	<i>16,489</i>
PLDT Only	7,008	7,543	7,590

The decrease in the number of employees within the PLDT Group from 2009 to 2010 primarily resulted from the MRP in our fixed line and wireless businesses.

PLDT has three employee unions, representing in the aggregate 4,811, or 17% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees union, our supervisors union and our sales supervisors union to be good.

**Table of Contents**

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

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

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

**Pension and Retirement Benefits***Defined Benefit Pension Plans*

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

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

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

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

*Defined Contribution Plan*

Smart maintains a trustee-managed, tax-qualified, multi-employer plan covering substantially all permanent and regular employees. The plan has a defined contribution format limiting Smart's obligation to a specified contribution to the plan. It is being financed by the participating companies (Smart and its subsidiary, I-Contacts) and contribution by

employees is optional.

**Table of Contents**

Total consolidated pension benefit costs amounted to Php236 million, Php1,306 million and Php725 million for the years ended December 31, 2010, 2009 and 2008, respectively. Unrecognized net actuarial gains as at December 31, 2010 amounted to Php479 million and unrecognized net actuarial losses as at December 31, 2009 amounted to Php2,474 million. As at December 31, 2010 and 2009, the prepaid benefit costs amounted to Php5,333 million and Php5,414 million, respectively. The accrued benefit costs amounted to Php415 million and Php359 million as at December 31, 2010 and 2009, respectively. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see Note 3 Management's Use of Judgments, Estimates and Assumptions, Note 5 Income and Expenses and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

**Item 7. Major Shareholders and Related Party Transactions**

The following table sets forth information regarding ownership of shares of PLDT's common stock as at February 28, 2011, of all shareholders known to us to beneficially own more than 5% of PLDT's shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT's common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's common stock.

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship With Issuer</b>	<b>Place of Incorporation</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Number of Shares Held of Record</b>	<b>Percentage of Class</b>
Common	Philippine Telecommunications Investment Corporation <sup>(1)</sup> 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263 <sup>(2)</sup>	13.94
Common	Metro Pacific Resources, Inc. <sup>(3)</sup> c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	15,745,172 <sup>(2)</sup>	8.43
Common	NTT Communications Corporation <sup>(4)</sup> 1-1-6 Uchisaiwai-cho 1-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote (5)	12,633,487	6.76
Common	NTT DoCoMo, Inc. <sup>(6)</sup> 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote (5)	18,234,821 <sup>(7)</sup>	9.76
Common	Social Security System <sup>(8)</sup> SSS Building East Avenue, Quezon City	Philippine Corporation	Same as Record Owner	5,024,789 <sup>(9)</sup>	2.69

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Common	PCD Nominee Corporation <sup>(10)</sup> 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas St. Makati City	Philippine Corporation	See Footnote (10)	53,084,846	28.42
Common	J. P. Morgan Asset Holdings (HK) Limited <sup>(11)</sup> (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote (11)	45,102,238	24.15
Common	Lazard Asset Management LLC <sup>(12)</sup>	Delaware Corporation	See Footnote (12)	13,525,292	7.24

<sup>(1)</sup> *Based on a resolution adopted by the Board of Directors of PTIC, the Chairman of the Board of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.*

<sup>(2)</sup> *First Pacific Group beneficially owned 26% of the outstanding common stock of PLDT as at February 28, 2011 by virtue of PLDT common*



**Table of Contents**

*shareholdings by intermediate holding companies, including PTIC and MPRI.*

- (3) *Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI in the Annual Meeting.*
- (4) *Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT Communications.*
- (5) *In publicly available reports filed by NTT Communications and NTT DoCoMo, it is stated that because of NTT's ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DoCoMo, NTT, NTT Communications and NTT DoCoMo may be considered to constitute a group within the meaning of Section 13(d)(3) of the U.S Securities Exchange Act of 1934, as amended. Therefore, each of them may be deemed to have beneficial ownership of the 39,401,561 shares in aggregate held by NTT Communications and NTT DoCoMo, representing approximately 21% of the outstanding common stock of PLDT as at February 28, 2011.*
- (6) *Based on publicly available information, NTT DoCoMo, is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DoCoMo, Mr. Toshinari Kunieda or Mr. Mutsuo Yamamoto, is authorized to execute for and on behalf of NTT DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DoCoMo.*
- (7) *The total PLDT shareholdings of NTT DoCoMo is 26,768,074 shares, of which 18,234,821 are owned on record by NTT DoCoMo, and 8,533,253 are shares underlying ADSs, collectively representing 14.33% of the outstanding common stock of PLDT as at February 28, 2011.*
- (8) *Based on a resolution adopted by the Board of Directors of the SSC, Mr. Juan B. Santos, as Chairman of the SSC, has been authorized to sign the proxy constituting the lawful attorney/proxy of SSS with full power to represent and vote the PLDT shares of common stock of SSS in the Annual Meeting of PLDT.*
- (9) *The total PLDT shareholdings of SSS is 10,703,748 shares of PLDT of which 5,024,789 are owned on record by SSS and 5,678,959 shares are held on record by PCD, collectively representing 5.73% of the outstanding common stock of PLDT as at February 28, 2011.*
- (10) *PCD is the registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. Based on available information, none of the owners of the PLDT common shares registered under the name of PCD, owned more than 5% of PLDT's outstanding common stock as at February 28, 2011, except The Hongkong and Shanghai Banking Corp. Ltd. Clients, which owned approximately 14.92% of PLDT's outstanding common stock as of such date. PLDT has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking*

*Corp. Ltd. Clients owned more than 5% of PLDT's outstanding common stock as at February 28, 2011.*

*The PCD account also includes 5,678,959 shares of PLDT common stock beneficially owned by the SSS.*

- (11) JP Morgan Asset Holdings (HK) Limited holds shares as nominee of JPMorgan Chase Bank, successor depositary under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs evidencing ADSs, representing shares of common stock of PLDT (the Deposit Agreement). Under the Deposit Agreement, if the depositary does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depositary to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.*

*This account also includes 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DoCoMo, and 13,525,292 shares of PLDT common stock underlying ADSs beneficially owned by Lazard Asset Management LLC, or LAMLLC.*

- (12) According to the Schedule 13G/A of LAMLLC filed with the U.S. Securities and Exchange Commission on February 11, 2011, LAMLLC, as an investment adviser, beneficially owned 13,525,292 shares of PLDT common stock. LAMLLC confirmed that all of the 13,525,292 shares of PLDT common stock are underlying ADSs.*

*As at February 28, 2011, approximately 86.25% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.*

#### **Related Party Transactions**

For a detailed discussion of our material related party transactions, see Note 24 Related Party Transactions to the accompanying consolidated financial statements in Item 18.

Except for the transactions discussed in Note 24 Related Party Transactions to the accompanying consolidated financial statements in Item 18, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

**Table of Contents**

There was no outstanding indebtedness at any time during the last three financial years that was owed to PLDT and/or its subsidiaries by any Related Party.

**Item 8. Financial Information****Consolidated Financial Statements and Other Financial Information**

See Item 18 Financial Statements.

**Legal Proceedings**

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

***NTC SRF***

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

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

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

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary, Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long

distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that

128

---

**Table of Contents**

PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

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

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

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

**Taxation***Local Business and Franchise Taxes*

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

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

For more information, see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

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

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

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

For more information, see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

**Dividend Distribution Policy**

Please see Item 3. Key Information Dividends Declared for a description of our dividend distribution policy, and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for tables that show dividends declared in 2010.

**Table of Contents****Item 9. The Offer and Listing****Common Capital Stock and ADSs**

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

For the period from January 1 to February 28, 2011, a total of 4.9 million shares of PLDT's common capital stock were traded on the Philippine Stock Exchange. During the same period, the volume of trading was 3.3 million ADSs on the NYSE.

As at February 28, 2011, 10,492 stockholders were Philippine persons and held approximately 35.53% of PLDT's common capital stock. In addition, as at February 28, 2011, there were a total of approximately 53.8 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 335 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2011				
First Quarter				
January	2,550.00	2,456.00	58.80	55.55
February	2,524.00	2,150.00	56.44	49.48
March (until March 29, 2011)	2,292.00	1,990.00	53.50	46.08
2010				
First Quarter	2,775.00	2,420.00	60.65	53.05
Second Quarter	2,540.00	2,320.00	57.49	50.04
Third Quarter	2,630.00	2,355.00	59.92	51.47
September	2,630.00	2,398.00	59.92	54.10
Fourth Quarter	2,764.00	2,360.00	64.35	53.61
October	2,764.00	2,596.00	64.35	59.52
November	2,684.00	2,364.00	63.45	53.61
December	2,558.00	2,360.00	58.70	54.28
2009	2,670.00	1,830.00	58.17	38.43
First Quarter	2,310.00	1,830.00	49.80	38.43
Second Quarter	2,620.00	2,125.00	52.16	43.01
Third Quarter	2,625.00	2,300.00	54.50	48.12
Fourth Quarter	2,670.00	2,405.00	58.17	51.12
2008	3,175.00	1,810.00	76.72	36.05
2007	3,285.00	2,250.00	76.30	45.25
2006	2,610.00	1,675.00	51.90	32.15

**Item 10. Additional Information****Articles of Incorporation and By-Laws**

The following summarizes certain provisions of PLDT's Articles of Incorporation and By-Laws and applicable Philippine law. This summary is qualified in its entirety by reference to the Corporation Code of the Philippines (the Corporation Code) and PLDT's Articles of Incorporation and By-Laws. Information on where investors can obtain copies of the Articles of Incorporation and By-Laws is described under the heading Documents Available.

*Purpose of PLDT*

PLDT's Articles of Incorporation have been filed with the Philippine SEC and PLDT has been issued Philippine SEC Reg. No. 55. The Second Article of PLDT's Articles of Incorporation provides that the purposes for which PLDT was formed are to install, maintain, and operate any and all kinds of equipment for communications; to install, maintain, operate or lease telephone lines and systems, and to purchase, sell and deal in all kinds of products which may be combined with the building, installing and operation of those systems and lines and in general, to engage in any and all acts and business which may be necessary or convenient, in the furtherance of such lines of

**Table of Contents**

communication and business.

*Directors*

PLDT's Amended By-Laws provide that the board of directors shall consist of thirteen members, or such number of members provided in the Articles of Incorporation of the Corporation, as amended from time to time, each of whom must hold at least one share of the common stock of PLDT in his own name and possess the minimum qualifications and have none of the disqualifications provided in the By-Laws. There are no provisions in PLDT's Amended Articles of Incorporation or Amended By-Laws with respect to: (a) a director's power to vote on a proposal, arrangement or contract in which the director is materially interested; (b) the directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body; (c) borrowing powers exercisable by the directors and how such borrowing powers can be varied; or (d) retirement or non-retirement of directors under an age limit requirement.

*Description of PLDT Capital Stock*

*Authorized Capital Stock*

The authorized capital stock of PLDT is Php9,395 million divided into two classes consisting of 234 million shares of Common Capital Stock with a par value of Php5 per share (the Common Stock) and 822.5 million shares of serial Preferred Stock with a par value of Php10 per share (the Preferred Stock).

*Common Stock*

Set out below is a statement of the dividend, voting, pre-emption and other rights of the holders of Common Stock as set out in the Articles of Incorporation and/or By-Laws of PLDT:

- (a) After the requirements with respect to preferential dividends on the serial Preferred Stock shall have been met and after PLDT shall have complied with all the requirements, if any, with respect to the setting aside of sums as purchase, retirement or sinking funds, the holders of the Common Stock shall be entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available therefore.
- (b) After distribution in full of the preferential amounts to be distributed to the holders of serial Preferred Stock in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of PLDT, the holders of Common Stock shall be entitled to receive all the remaining assets of PLDT of whatever kind available for distribution to stockholders ratably in proportion to the number of Common Stock held by them, respectively.
- (c) Except as may be otherwise required by law, or by the Articles of Incorporation of PLDT, each holder of Common Stock shall have one vote in respect of each share of such stock held by him on all matters to be voted upon by the stockholders, and the holders of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. At every election of directors, each holder of Common Stock is entitled to vote such shares of Common Stock held by him and he may vote such number of shares for as many persons as there are directors to be elected, or to cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or to distribute such votes on the same principle among as many candidates as he shall think fit.

In addition to the foregoing rights, the Corporation Code provides for other stockholders' rights generally, which include:

- (a) Appraisal right or the right of a dissenting stockholder to demand payment of the fair value of his shares of stock in the following instances: (i) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets of the corporation; (iii) in case of merger or consolidation; and (iv) in case of investment of funds of the corporation in any other corporation or business or for any purpose other than the primary purpose for which it was organized, except where the investment by the



corporation is reasonably necessary to

**Table of Contents**

accomplish its primary purpose as stated in its articles of incorporation.

- (b) The right to approve certain corporate acts, such as: (i) election of directors; (ii) removal of directors; (iii) extension or shortening of the corporate term; (iv) increase or decrease of capital stock, and incurring, creating or increasing bonded indebtedness; (v) sale or other disposition of all or substantially all of the corporate assets; (vi) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized except where the investment is reasonably necessary to accomplish its primary purpose as stated in the corporation's articles of incorporation; (vii) declaration of stock dividend; (viii) entering into a management contract with another corporation; (ix) plan of merger or consolidation; and (x) voluntary dissolution of the corporation by shortening the corporate term.
- (c) The right to inspect at reasonable hours on business days the records of all business transactions of the corporation and the minutes of any meeting; however, the stockholders' right to inspect corporate records and books is not an absolute right so that the corporation may deny said right on the basis of impropriety of the purpose or motive of the stockholder.
- (d) The right to be furnished the most recent financial statements of the corporation, within ten (10) days from receipt by the corporation of a written request from a stockholder. The same right exists at the annual meeting of stockholders at which the board of directors must present to the stockholders a financial report of the operations of the corporation for the preceding year which shall include financial statements duly signed and certified by an independent certified public accountant.

*Restrictions on Foreign Ownership*

The Constitution of the Republic of the Philippines (Section 11, Article XII) states 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.

While the Articles of Incorporation and By-Laws of PLDT do not contain any specific restriction on the sale, assignment or transfer of shares that would violate the aforesaid ownership requirement, the Articles of Incorporation of PLDT provide that the board of directors shall have full power and authority to authorize (whether by adoption of amendments to the By-Laws of PLDT or of resolutions, the promulgation of rules or regulations or otherwise) the taking by said corporation of all such actions as the board of directors may deem necessary or appropriate to ensure compliance by said corporation with any applicable provision of the Constitution of the Republic of the Philippines or any other applicable law, treaty, rule or regulation relating to the ownership of securities of said corporation by citizens of the Philippines, aliens or other persons or group of persons.

*Meetings*

The Corporation Code requires corporations to hold an annual meeting of stockholders and to send notice thereof to stockholders. Under PLDT's By-Laws, the annual meeting of stockholders shall be held at the principal office of the corporation, or at such other place designated by the board of directors in the city or municipality where the principal office of the corporation is located, on the second Tuesday in June of each year. In the annual meeting, the board of directors shall be elected and such other business may be transacted as shall come before the meeting. At least fifteen (15) business days written or printed notice of the date, time and place of holding every annual stockholders' meeting shall be given by the Secretary or by the Assistant Secretary by personal delivery or by mail to each stockholder at his or her last known place of residence or business. Special meetings of stockholders may be called at any time by the Chairman of the Board or three (3) of the Directors or by any number of stockholders representing two-thirds (2/3) of the subscribed capital stock. Notice in writing of such meeting, stating the date, time and place thereof and the purpose or purposes for which such meeting is called, shall be given to each stockholder by the Secretary or Assistant Secretary or, in case of his absence, inability, refusal or neglect to act, then by the President, Directors or stockholders calling the said meeting, by personal delivery or by mail to each stockholder at his or her last known place of residence, at least fifteen (15) business days before the date fixed for the meeting and the statement of service by such

delivery or mailing shall be entered upon the minutes of meeting and the said minutes as certified correct by the secretary of the meeting and attested by the chairman of the meeting shall be conclusive on the question of service.

The By-Laws of PLDT provide that each share of common stock which has voting rights on any matter under consideration may be represented at any meeting of stockholders by the holder thereof or by his attorney duly

**Table of Contents**

authorized by proxy executed in writing on forms prescribed by the board of directors which shall be furnished to a stockholder upon his request. Unless otherwise provided in the proxy, it shall be valid only for the meeting in respect of which such proxy was issued. Proxies must be filed with the Secretary, Assistant Secretary or transfer agent of PLDT at least seven (7) days before the day of the meeting. Any proxy filed with the Secretary, Assistant Secretary or transfer agent of the corporation may be revoked by the stockholder concerned either in an instrument in writing duly presented to the Secretary, Assistant Secretary or transfer agent of the corporation at least three (3) days before the day of the meeting or by his personal presence at the meeting. Validation of proxies shall be done at least five (5) days before the day of the meeting by the Secretary or by a special committee of inspectors composed of the Secretary, Assistant Secretary and a representative of the transfer agent of PLDT. The decision of the Secretary or the special committee of inspectors, as the case may be, on the validity of proxies shall be final and binding until and unless set aside by a court of competent jurisdiction. As provided in the Corporation Code, unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended and no proxy shall be valid and effective for a period longer than five (5) years at any one time.

The By-Laws of PLDT also provide that at any meeting of the stockholders, persons representing, in person or by proxy, a majority of the shares issued and outstanding and entitled to vote at said meeting shall constitute a quorum for the transaction of any business, except as otherwise provided by law, and except that a lesser number may adjourn the meeting.

*Issues of Shares*

The board of directors of PLDT has the power to authorize without seeking shareholders approval the issue and sale of authorized but unissued shares of Common Stock of said corporation for such consideration as it shall determine, provided that such consideration shall not be less than the par value of such shares and, provided further, that such issue and sale is not otherwise prohibited under applicable laws.

Under the SRC (R.A. No. 8799), no securities except of a class exempt under the provisions thereof or unless sold in any transaction exempt under any of the provisions thereof, shall be sold or offered for sale or distribution to the public unless such securities shall have been registered and permitted to be sold pursuant to the SRC.

*Transfer of Shares*

The shares of Common Stock may be transferred by delivery of certificate(s) endorsed by the shareholder named in the certificate or his duly authorized attorney or representative. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the stock and transfer books of PLDT maintained by

Hong Kong and Shanghai Banking Corporation, the stock transfer agent of PLDT for its Common Stock.

Philippine law does not require transfers of Common Stock to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on the PSE. All transfers of shares of Common Stock on the PSE must be effected through a licensed broker in the Philippines.

*Share Certificates*

Certificates representing fully paid shares of Common Stock are issued in such denominations as stockholders may request, except that certificates will not be issued for any fractional part of a share or any undivided interest in any share.

*Dividends*

Under the Corporation Code, the board of directors may declare dividends on the Common Stock out of the unrestricted retained earnings which may be payable in cash, in property or in stock to all stockholders on the basis of outstanding shares held by them. The declaration of stock dividends requires the approval of the stockholders of PLDT representing not less than two-thirds of the outstanding capital stock of PLDT. If a stock dividend would require an increase in the authorized capital stock, Philippine SEC approval would be required. Common Stock issued as stock dividends should be registered with and licensed by the Philippine SEC and listed on the PSE.

The Corporation Code requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general

**Table of Contents**

requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite corporate expansion projects or programs approved by the board of directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances relevant to the corporation, such as when there is a need for special reserve for probable contingencies.

See Item 5. Liquidity and Capital Resources Financing Activities Financing Requirements and Item 3. Key Information Dividends Declared and Key Information Dividends Paid .

*Preferred Stock*

Preferred Stock may be issued from time to time in one or more series as the board of directors may determine. The board of directors is authorized to establish and designate the title and number of shares of each series and to fix the terms thereof, including dividend rate, redemption and sinking fund provisions, conversion rights and the amount to be received upon liquidation, provided that the amounts payable upon redemption or liquidation may not be more than 110%, nor less than 100%, of par value, plus in each such case accrued and unpaid dividends. Except as otherwise provided by law, the holders of Preferred Stock are not entitled to vote for the election of directors or for any other purpose; provided, however, that PLDT may not change the rights of the holders of any series of Preferred Stock in any manner prejudicial to the holders thereof without the affirmative vote of the holders of a majority of the shares of such series. No such approval is needed to increase the number of shares of Preferred Stock (up to the number from time to time authorized by the Articles) or to authorize classes of shares ranking on a parity with the Preferred Stock.

*Issued and Outstanding Preferred Stock*

The series of Preferred Stock and the number of shares issued and outstanding under each series as at February 28, 2011 and December 31, 2010 are as follows:

Series	No. of Shares	
	February 28, 2011	December 31, 2010
Series A to HH 10% Cumulative Convertible	405,912,897	405,887,387
Series IV Cumulative Non-convertible Redeemable	36,000,000*	36,000,000*

\* Total subscribed shares is 300 million with a total subscription price of Php3 billion, out of which amount Php360 million has been paid.

The Series A to II 10% Cumulative Convertible Preferred Stock are entitled to receive cumulative dividends at the rate of 10% per annum; redeemable at the option of PLDT, at par value plus accrued dividends, five years after the year of issuance; convertible to shares of Common Stock a year after the year of share issuance, at a price equivalent to 10% below the average market price of the Common Stock at the PSE over a period of 30 consecutive trading days before the conversion date; and entitled to be paid an amount equal to the par value of the shares plus accrued and unpaid dividends thereon to the date fixed for such payment in the event of a voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the affairs of the corporation.

The Series IV Cumulative Non-convertible Redeemable Preferred Stock are entitled to receive cumulative dividends at the rate of 13.5% per annum based on the paid-up subscription price. It is redeemable at the option of PLDT one year at any time after subscription at an amount equal to the par value of such shares so redeemed or if such shares are not yet fully paid, the actual amount paid, plus accrued and unpaid dividends thereon; and in the event of a voluntary or involuntary liquidation, dissolution or winding up of affairs of PLDT, shall be entitled to be paid an amount equal to the par value of such shares or if such shares are not yet fully paid, the actual amount paid, plus an amount equal to the dividends accrued thereon to the date fixed for payment. The outstanding shares of Series IV Cumulative Non-convertible Redeemable Preferred Stock have not been fully paid.

*Change in Control*

Article V, Section 1 of PLDT's Amended By-Laws may have the effect of preventing a change in control of PLDT. This section provides that any person who is engaged in any business that competes with or is antagonistic to that of

PLDT or its subsidiaries is ineligible for nomination or election to the board of directors.

**Table of Contents**

Under the Cooperation Agreement, each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, it shall cast its vote as a PLDT shareholder in support of any resolution proposed by the PLDT board of directors for the purpose of safeguarding PLDT from any Hostile Transferee (as defined in the Cooperation Agreement). See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

**Material Contracts**

Other than the contracts described in Item 4. Information on the Company Development Activities (2008-2010) and Item 7. Major Shareholders and Related Party Transactions, we have not entered into any material contract that are not in the ordinary course of business within the two years preceding the date of this annual report.

**Exchange Controls and Other Limitations Affecting Securities Holders**

In Circular No. 1389 dated November 10, 1993, as amended by Circular No. 224 dated January 26, 2000, of the BSP, foreign investments in the shares of stock of Philippine companies listed in the PSE may be registered either with the BSP or with an investor's designated custodian bank. The foreign investments in listed shares of stock, which are duly registered with the BSP or with a custodian bank duly designated by the foreign investor, are entitled to full and immediate capital repatriation and dividend and interest remittance privileges. Without the need to obtain prior BSP approval, commercial banks are authorized to sell and to remit the equivalent foreign exchange (at the exchange rate prevailing at the time of actual remittance) representing sales and divestment proceeds or dividends of a duly registered foreign equity investment upon presentation of a BSP Registration Document ( BSRD ) together with other supporting documents. The BSRD is issued by the BSP or the custodian bank upon registration of the foreign investment and serves as the authority to repatriate such divestment and sales proceeds or remittance of cash dividends. Effective April 3, 2000, only pre-numbered BSRD forms, printed on BSP security paper may be used and issued as proof of registration of foreign investments in accordance with existing BSP rules. The remitting commercial bank must submit to the BSP a statement of remittance together with the supporting documents within two banking days from date of actual remittance. Foreign investments not duly registered with the BSP or with the investor's designated custodian bank are not entitled to repatriation and remittance privileges through the banking system except capital repatriation or dividend remittance of direct foreign equity investments made prior to March 15, 1973 when BSP registration was not yet required. The BSP should be notified of the transfer of sale of foreign investments in equity or securities already registered with the BSP, in order that the registration of the foreign investment may be transferred in the name of the transferee or purchaser.

Cash dividends on PLDT's stock are paid in Philippine peso, except dividends on the Series VI Convertible Preferred Stock, which were paid in U.S. dollars. PLDT's Transfer Agent for its common stock, The Hong Kong and Shanghai Banking Corporation, which also acts as dividend paying agent, converts and remits in U.S. dollars, at the prevailing exchange rate, cash dividends due to all common shareholders residing outside the Philippines. Under the above-mentioned regulations, PLDT has been able to remit the cash dividends due to shareholders residing outside the Philippines. As at December 31, 2010, approximately 86% of PLDT's outstanding shares of common and preferred stock were held by Philippine persons. For certain restrictions on the declaration and payment of dividends by PLDT, see Note 19 Equity and Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in Item 18.

Principal of and interest on PLDT's 11.375% Notes due 2012 and 8.35% Notes due 2017 are payable in U.S. dollars which may be paid through the local banking system either pursuant to the registration of such Notes with the BSP or otherwise pursuant to specific BSP approval of such payment. Such principal and interest may also be paid utilizing PLDT's own dollar resources without necessity of BSP approval. The BSP, with the approval of the President of the Philippines, may, however, restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

**Table of Contents****Taxation**

The following is a description of the material Philippine and United States federal income tax consequences to United States Holders (as defined below) of owning shares of Common Stock and ADSs. It applies to you only if you hold your Common Stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of PLDT's voting stock, a person that holds Common Stock or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986, as amended (the U.S. Tax Code), its legislative history, existing and proposed regulations, published rulings and court decisions, and the laws of the Philippines including the Philippine National Internal Revenue Code of 1997 (the Philippine Tax Code) all as currently in effect, as well as on the Convention Between the Philippines and the United States (the Philippines-United States Tax Treaty). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part on the representations of the Depository and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed according to its terms.

You are a United States Holder if you are a beneficial owner of Common Stock or ADSs and you are a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation and Philippine income taxation, estate and donor's taxation, stock transaction taxation and documentary stamp taxes.

*Philippine Taxation**Taxes on Exchange of ADSs for Common Stock*

Philippine capital gains or stock transaction taxes and documentary stamp taxes may be payable upon the transfer of shares of Common Stock to a holder of ADRs or to a holder of GDRs. See Capital Gains Tax and Stock Transaction Tax and Documentary Stamp Taxes.

*Taxation of Dividends*

Under the Philippine Tax Code, dividends paid by a Philippine corporation to citizens of the Philippines and resident aliens in the Philippines are subject to a final withholding tax of 10% while those paid to non-resident aliens engaged in trade or business within the Philippines are subject to a final withholding tax of 20%. Dividends paid to non-resident aliens not engaged in trade or business within the Philippines are subject to a final withholding tax of 25%. Dividends paid by a Philippine corporation to other Philippine corporations or to resident non-Philippine corporations are not subject to tax. Dividends paid to non-resident non-Philippine corporations not engaged in a trade or business in the Philippines by Philippine corporations shall be subject to a final withholding tax of 15%, subject to the condition that the country in which the non-resident non-Philippine corporation is domiciled either: (i) allows a credit against the tax due from the non-resident non-Philippine corporation taxes deemed to have been paid in the Philippines equivalent to 15% effective January 1, 2009 (which represents the difference between the regular income tax on non-resident non-Philippine corporations of 30% effective January 1, 2009 and the 15% tax on dividends) (this condition is not satisfied in the case of corporations domiciled in the United States if such corporations own less than 10% of the voting stock of PLDT) or (ii) imposes no income taxes on dividends received by such non-resident non-Philippine corporations from Philippine corporations (this condition is not satisfied in the case of corporations domiciled in the United States). If neither of the foregoing conditions are met, the dividends paid to the non-resident non-Philippine corporation shall be subject to the regular income tax (in the form of final withholding tax) at the rate of 30% effective January 1, 2009. Under rulings issued by Philippine tax authorities, Hong Kong is viewed as falling within clause (ii) and, thus, companies that are organized in Hong Kong that are not engaged in trade or business in the Philippines may be entitled to the benefit of the 15% rate. Such rulings, however, were based upon the laws of Hong Kong as in effect at the time such rulings were issued, and any subsequent changes in the relevant laws of Hong Kong may affect the validity of such rulings. PLDT reserves the right to change the rate at which it makes





**Table of Contents**

payments of withholding tax whenever it deems it appropriate under applicable law.

If the holder of Common Stock is a non-resident foreign partnership, which is treated as a corporation for Philippine tax purposes, dividends on the Common Stock should be subject to a final withholding tax of 30% effective January 1, 2009. Cede & Co., the partnership nominee of Depository Trust Company (DTC), should qualify as a non-resident foreign partnership that would be treated as a corporation for Philippine tax purposes.

In certain circumstances where the holder holds Common Stock, a tax treaty rate may be applicable with respect to the Philippine withholding tax. For instance, holders under such circumstances and as to which the Philippines-United States Tax Treaty would be applicable would be eligible for a treaty rate of 25% (or 20% in certain instances). The 20% treaty rate is generally not applicable in the case of non-resident non-Philippine corporations domiciled in the United States which own less than 10% of the voting stock of PLDT. Holders are required, however, to establish to the Philippine taxing authorities their eligibility for such treaty rate. Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief. Provided that it complies with the procedures for availment of tax treaty relief, PLDT intends to pay withholding tax at the reduced treaty rate in respect of shares the registered holder of which is Cede & Co., on the basis that Cede & Co. is a resident of the United States for purposes of the Philippines-United States Tax Treaty. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

*Capital Gains Tax and Stock Transaction Tax*

The Philippine Tax Code provides that gain from the sale of shares of stock in a Philippine corporation shall be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. Subject to applicable tax treaty rates, the rate of tax on such gain, where the share is not disposed of through the PSE, is a final tax (i.e., capital gains tax) of 5% for gains not exceeding Php100,000 and 10% for gains in excess of that amount. The rate is the same for both non-resident individuals and non-resident non-Philippine corporations. While this tax is not collected through withholding, the Philippine Tax Code prohibits a sale or transfer of shares of stock from being recorded in the Stock and Transfer Books of the corporation unless the Philippine Commissioner of Internal Revenue certifies that the tax has been paid or certain other conditions are met.

The sale of shares which are listed in and sold through the PSE are subject to the stock transaction tax imposed at the rate of 1/2 of 1% of the gross selling price. This tax is required to be collected and paid to the government by the selling stockbroker on behalf of his client. In a letter from the BIR dated December 28, 2010 and addressed to the Securities and Exchange Commission, the BIR sets out the policy that, for tax purposes: (i) listed companies should continually maintain, if not surpass, their initial public ownership requirement in order to continually enjoy the preferential tax rate of 1/2 of 1% of the gross selling price of gross value on money arising from the disposal by the stockholders of their listed shares through the PSE; and (ii) failure of listed companies to do so exposes the stockholders selling their shares to the 5%/10% capital gains tax as these companies are no longer compliant with their public ownership status and will, thus, not be considered publicly-listed companies for taxation purposes. While such letter from the BIR provides that this new policy will be implemented beginning January 1, 2011, the BIR has not yet issued guidelines for its implementation.

Sales of shares other than through a Philippine stock exchange will be subject to Philippine capital gains tax in the manner described above.

Under the Philippines-United States Tax Treaty, gains derived by a United States resident from the sale of shares of stock of a Philippine corporation will not be subject to capital gains tax (i.e., where the share is not disposed of through the PSE), unless the shares are those of a corporation of which over 50% of the assets (in terms of value) consist of real property interests located in the Philippines. PLDT does not believe that it currently is such a corporation.

*Documentary Stamp Taxes*

The Philippines imposes a documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation at a rate of Php0.75 on each Php200, or fractional part thereof, of the par value of the shares. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred, when the obligation or right arises from Philippine sources or the property is situated in the Philippines. However, the sale, barter, transfer or exchange of shares of stock of a Philippine Corporation which is listed and traded through the

facilities of the Philippine Stock Exchange is exempt from the document stamp tax.

**Table of Contents***Estate and Donor's Taxes*

Shares of stock issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes. The transfer of shares of stock by a deceased individual to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over Php200,000. Individual and corporate shareholders, whether or not citizens or residents of the Philippines, who transfer the Equity Securities by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15%, if the net gifts made during the calendar year exceed Php100,000. The rate of tax with respect to net gifts made to a stranger, who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship of the donor, is a flat rate of 30%. Estate and gift taxes will not be collected in respect of intangible personal property such as the Equity Securities:

if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or

if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Shares of stock of a deceased shareholder or shares that have been donated may not be transferred on the books of the corporation without a certificate from the Philippine Commissioner of Internal Revenue that the applicable estate or donor's taxes have been paid. In the case of ADRs, however, there is no corresponding requirement, unless a transfer of the ADRs would also entail a change in the registration of the underlying shares.

*United States Federal Taxation*

In general, taking into account the earlier assumptions that each obligation of the Deposit Agreement and any related agreement will be performed according to its terms, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares of Common Stock for ADRs, and ADRs for shares of Common Stock, generally will not be subject to United States federal income tax.

*Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a United States Holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate United States Holder, dividends paid to you in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that, in the case of Common Stock or ADSs you hold the Common Stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Dividends we pay with respect to the Common Stock or ADSs generally will be qualified dividend income.

You must include any Philippine tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of Common Stock, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a United States Holder will be the U.S. dollar value of the Philippine peso payments made, determined at the spot Philippine peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within

the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated  
138

---

**Table of Contents**

earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Common Stock or ADSs and thereafter as capital gain.

Subject to certain limitations, the Philippine tax withheld in accordance with the Philippines-United States Tax Treaty and paid over to the Philippines will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States. Dividends will, depending on your circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to you.

*Sale or Other Disposition of Equity Securities*

Subject to the PFIC rules discussed below, a United States Holder will recognize capital gain or loss upon the sale of Common Stock or ADSs in an amount equal to the difference between such United States Holder's basis in the Common Stock or ADSs and the amount realized upon the sale. Such gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or retirement, the Common Stock or ADSs have been held for more than one year. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Generally, any such gain or loss will be treated as realized income or loss from sources within the United States for foreign tax credit limitation purposes. United States Holders may not be eligible to credit against their United States federal income tax liability amounts paid in respect of the Philippine stock transaction tax. See Philippine Taxation – Capital Gains Tax and Stock Transaction Tax.

The U.S. Tax Code does not authorize a comparable credit for foreign gift or donor's taxes such as those imposed by the Philippines. See Philippine Taxation – Estate and Donor's Taxes.

*Passive Foreign Investment Company Rules*

We believe that the Common Stock or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless the Common Stock or ADSs are marketable stock and a United States Holder elects to be taxed annually on a mark-to-market basis with respect to the Common Stock or ADSs, gain realized on the sale or other disposition of your Common Stock or ADSs would in general not be treated as capital gain. Instead, if you are a United States Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

**Documents on Display**

We are subject to the informational requirements of the Exchange Act, and file reports and other information with the Commission, as required by this Act. Reports and other information filed by us with the Commission may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Copies of these materials may be obtained by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005, on which the ADSs representing our Common Stock are listed.

**Item 11. Quantitative and Qualitative Disclosures About Market Risks**

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and continuing volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.



**Table of Contents*****Liquidity Risk***

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php1,145 million as at December 31, 2010 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php36,678 million and Php669 million, respectively, as at December 31, 2010. See Note 15 Cash and Cash Equivalents to the accompanying consolidated financial statements in Item 18. Details on our letters of credit and a summary of the maturity profile of our financial liabilities as at December 31, 2010 and 2009 based on contractual undiscounted payments is set out in Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

***Foreign Currency Exchange Risk***

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.





**Table of Contents**

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2010 and 2009:

	2010		2009	
	U.S. Dollar	Php <sup>(1)</sup> (in millions)	U.S. Dollar	Php <sup>(2)</sup>
<b>Noncurrent Financial Assets</b>				
Note receivable	2	84	2	81
Derivative financial assets	4	178		
Advances and refundable deposits	1	38		7
Total noncurrent financial assets	7	300	2	88
<b>Current Financial Assets</b>				
Cash and cash equivalents	138	6,050	140	6,496
Short-term investments	15	652	47	2,164
Trade and other receivables net	214	9,361	206	9,573
Derivative financial assets		5		6
Total current financial assets	367	16,068	393	18,239
<b>Total Financial Assets</b>	<b>374</b>	<b>16,368</b>	<b>395</b>	<b>18,327</b>
<b>Noncurrent Financial Liabilities</b>				
Interest-bearing financial liabilities net of current portion	782	34,244	837	38,871
Derivative financial liabilities	82	3,604	59	2,751
Total noncurrent financial liabilities	864	37,848	896	41,622
<b>Current Financial Liabilities</b>				
Accounts payable	169	7,415	155	7,180
Accrued expenses and other current liabilities	143	6,267	95	4,409
Current portion of interest-bearing financial liabilities	103	4,537	155	7,220
Total current financial liabilities	415	18,219	405	18,809
<b>Total Financial Liabilities</b>	<b>1,279</b>	<b>56,067</b>	<b>1,301</b>	<b>60,431</b>

<sup>(1)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

<sup>(2)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.43 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2009.

As at March 29, 2011, the Philippine peso-dollar exchange rate was Php43.53 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities as at December 31, 2010 would have decreased in Philippine peso terms by Php253 million.

Approximately 43% and 46% of our total consolidated debts (net of consolidated debt discount) was denominated in U.S. dollars as at December 31, 2010 and 2009, respectively. Consolidated foreign currency-denominated debt decreased to Php38,414 million as at December 31, 2010 from Php45,633 million as at December 31, 2009. See Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in Item 18 for further discussion. The aggregate notional amount of PLDT's outstanding long-term principal only currency swap contracts were US\$262 million and US\$391 million as at December 31, 2010 and 2009, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 30% (or 23%, net of our consolidated U.S. dollar cash balances) and 28% (or 19%, net of our consolidated U.S. dollar cash balances) as at December 31, 2010 and 2009, respectively.

Approximately 26% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2010 as compared with approximately 28% for each of the years ended December 31, 2009 and 2008. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US\$1.00 as at December 31, 2010 from Php46.43 to US\$1.00 as at December 31, 2009. As at December 31, 2009, the Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US\$1.00 from Php47.65 to US\$1.00 as at December 31, 2008. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php1,807 million and Php909 million in 2010 and 2009, respectively, and net consolidated foreign exchange losses of Php6,170 million in 2008. See Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18 for further discussion.

**Table of Contents**

Management conducted a survey among our banks to determine the outlook of the Philippine peso-dollar exchange rate until our next reporting date of December 31, 2011. Our outlook is that the Philippine peso-dollar exchange rate may weaken/strengthen by 5.27% as compared to the exchange rate of Php43.81 to US\$1.00 as at December 31, 2010. If the Philippine peso-dollar exchange rate had weakened/strengthened by 5.27% as at December 31, 2010, with all other variables held constant, profit after tax for the year end 2010 would have been approximately Php1,099 million higher/lower and our consolidated stockholders' equity as at year end 2010 would have been approximately Php1,089 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments. If the Philippine peso-dollar exchange rate had weakened/strengthened by approximately 4% as at December 31, 2009, with all other variables held constant, profit after tax for the year would have been approximately Php877 million higher/lower and our consolidated stockholders' equity as at year end 2009 would have been approximately Php849 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

**Interest Rate Risk**

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2010 and 2009. Financial instruments that are not subject to interest rate risk were not included in the table.

**As at December 31, 2010**

	In U.S. Dollar					Total	Discount/ Debt Issuance Cost In Php	Carrying Value In Php (in millions)	Fair Value In U.S. Dollar	Fair Value In Php
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years					
<b>Assets:</b>										
<i>Cash in Bank</i>										
U.S. Dollar	11					11	474	474	11	474
Interest rate	0.0025%									
	to									
	0.7840%									
Philippine										
Peso	31					31	1,362	1,362	31	1,362
Interest rate	0.0625%									
	to									
	2.9000%									
	3					3	118	118	3	118

Other Currencies								
Interest rate	0.0100%							
	to							
	2.4000%							
<i>Temporary Cash</i>								
<i>Investments</i>								
U.S. Dollar	110		110	4,813	4,813	110	4,813	
Interest rate	0.1000%							
	to							
	1.7000%							
Philippine Peso	661		661	28,959	28,959	661	28,959	
Interest rate	1.0000%							
	to							
	4.8100%							
<i>Short-term Investments</i>								
U.S. Dollar	15		15	652	652	15	652	
Interest rate	1.9000%							
	to							
	10.672%							
Philippine Peso				17	17		17	
Interest rate	3.2500%							
<i>Investment in Debt Securities</i>								
Philippine Peso		8	3	11	484	11	502	
Interest rate		6.8750%	7.0000%					
	<b>831</b>	<b>8</b>	<b>3</b>	<b>842</b>	<b>36,879</b>	<b>842</b>	<b>36,897</b>	

**Liabilities:**

*Long-term  
Debt*

**Table of Contents**

	Below 1 year	In U.S. Dollar			Over 5 years	Total	In Php	Discount/Debt Issuance Carrying Value		Fair Value In U.S.	
		1-2 years	2-3 years	3-5 years				Cost In Php	Value In Php	Dollar	In Php
<i>Fixed Rate</i>											
U.S. Dollar Notes Interest rate		146			234	380	16,650	200	16,450	440	19,274
		11.3750%			8.3500%						
U.S. Dollar Fixed Loans Interest rate	9	29	15	295		348	15,264	2,586	12,678	276	12,120
		2.9900% to 4.7000%	2.9900% to 3.7900%	2.2500% to 2.9900%							
Philippine Peso Interest rate	68	146	121	339	195	869	38,066	74	37,992	961	42,091
	6.0323% to 8.7792%	5.6250% to 8.4346%	6.5000% to 7.1038%	6.5000% to 9.1038%							
<i>Variable Rate</i>											
U.S. Dollar Interest rate	6	148	45	15		214	9,357	71	9,286	212	9,286
	US\$ LIBOR + 0.8150%	US\$ Swap rate + LIBOR + 0.4200%	US\$ Swap rate + LIBOR + 1.8500%	US\$ Swap rate + LIBOR + 0.4200%							
		2.7900%; 1.8500% LIBOR	2.7900%; 1.8500% LIBOR	2.7900%; 1.8500% LIBOR							
Philippine Peso Interest rate	58	150	74	20		302	13,253	13	13,240	302	13,240
	PDST-F + 0.3000% to 1.2500%	PDST-F + 0.3000% to 1.3750% AUB s prime rate	PDST-F + 0.3000% to 1.3000%	PDST-F + 0.3000%							

141            619    255    669            429    2,113    92,590    2,944    89,646    2,191    96,011

As at December 31, 2009

	Below 1 year	1-2 years	In U.S. Dollar			Total	In Php	Discount/ Debt Issuance Carrying		Fair Value In	
			2-3 years	3-5 years	Over 5 years			Cost In Php (in millions)	Value In Php	U.S. Dollar	In Php
<b>Assets:</b>											
<i>Cash in Bank</i>											
U.S. Dollar	11					11	540		540	11	540
Interest rate	0.0025%										
	to										
	0.88%										
Philippine Peso	36					36	1,673		1,673	36	1,673
Interest rate	0.625%										
	to										
	2.90%										
Other Currencies	1					1	31		31	1	31
Interest rate	0.0014										
	to										
	2.40%										
<i>Temporary Cash Investments</i>											
U.S. Dollar	384					384	17,870		17,870	384	17,870
Interest rate	0.50%										
	to										
	1.75%										
Philippine Peso	369					369	17,149		17,149	369	17,149
Interest rate	1.25%										
	to										
	5.50%										
<i>Short-term Investments</i>											
U.S. Dollar	46					46	2,132		2,132	46	2,132
Interest rate	4.25%										
	to										
	7.006%										
Philippine Peso	36					36	1,692		1,692	36	1,692
Interest rate	4.40%										

*Investment  
in Debt*

*Securities*

Philippine Peso			10		10	462		462	10	474
Interest rate			6.92%							
	<b>883</b>		<b>10</b>		<b>893</b>	<b>41,549</b>		<b>41,549</b>	<b>893</b>	<b>41,561</b>

**Liabilities:**

*Long-term  
Debt*

*Fixed Rate*

U.S. Dollar Notes			146		245	391	18,161	285	17,876	449	20,837
Interest rate			11.375%		8.350%						
U.S. Dollar Fixed Loans	14	27	5	285		331	15,397	3,338	12,059	229	10,654
Interest rate	4.515%	3.79%	3.79%	2.25%							
		to		to							
		4.70%		3.79%							
Philippine Peso		63	126	236	305	730	33,858	84	33,774	744	34,535
Interest rate	6.0323%	5.625% to	6.125%	6.50% to							
	to	8.4346%	to	9.1038%							
	8.4346%		9.1038%								

*Variable  
Rate*

U.S. Dollar Interest rate	41	160	74	60		335	15,543	124	15,419	332	15,419
		US\$		US\$							
		LIBOR		LIBOR							
		+		+							
		0.42%		0.42%							
		to		to							
		US\$ 1.85%;		1.85%;							
		LIBOR swap		LIBOR swap							
		+ 0.05% rate +		+ 1.85% swap rate +							
		to 2.5%		to 2.79%							
Philippine Peso		185	81	107		373	17,349	27	17,322	373	17,322



**Table of Contents**

	In U.S. Dollar					Over 5 years	Total	Discount/ Debt Issuance Carrying		Fair Value In U.S.	
	Below 1 year	1-2 years	2-3 years	3-5 years				Cost	Value	Dollar	In Php
Interest rate		PDST- + 0.75% to 1.5%; AUB prime rate	FPDST- + 1.0% to 1.5%; AUB prime rate	F + 1.0% to 1.50%				In Php (in millions)	In Php	Dollar	In Php
<i>Short-term Debt Notes Payable</i>											
U.S. Dollar	6					6	279		279	6	279
Interest rate	3.25%										
Philippine Peso	43					43	2,000		2,000	43	2,000
Interest rate	PDST- + 1.5%; 6.0896%										
	<b>104</b>	<b>435</b>	<b>432</b>	<b>688</b>	<b>550</b>	<b>2,209</b>	<b>102,587</b>	<b>3,858</b>	<b>98,729</b>	<b>2,176</b>	<b>101,046</b>

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of December 31, 2011. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 15 basis points and 220 basis points higher/lower, respectively, as compared to levels as at December 31, 2010. If U.S. dollar interest rates had been 15 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php56 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 220 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php785 million lower/higher, mainly as a result of higher/lower

interest expense on floating rate borrowings and loss/gain on derivative transactions. If U.S. dollar interest rates had been 90 basis points higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php527 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 55 basis points higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php241 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

***Credit Risk***

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

**Table of Contents**

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at December 31, 2010 and 2009:

	<b>Gross Maximum Exposure<sup>(1)</sup></b>		<b>Net Maximum Exposure<sup>(2)</sup></b>	
	<b>2010</b>	2009	<b>2010</b>	2009
		(in million pesos)		
Loans and receivables:				
Advances and refundable deposits	<b>1,000</b>	849	<b>999</b>	848
Cash and cash equivalents	<b>36,678</b>	38,319	<b>36,458</b>	38,101
Short-term investments	<b>152</b>	3,338	<b>152</b>	3,338
Foreign administrations	<b>4,321</b>	4,064	<b>4,277</b>	4,011
Retail subscribers	<b>3,872</b>	3,546	<b>3,799</b>	3,505
Corporate subscribers	<b>2,042</b>	2,429	<b>1,918</b>	2,328
Domestic carriers	<b>1,453</b>	1,184	<b>1,453</b>	1,184
Dealers, agents and others	<b>4,740</b>	3,506	<b>4,740</b>	3,506
Held-to-maturity investments:				
Investment in debt securities	<b>484</b>	462	<b>484</b>	462
Available-for-sale financial assets	<b>147</b>	134	<b>147</b>	134
Fair value through profit or loss:				
Short-term investments	<b>517</b>	486	<b>517</b>	486
Long-term currency swap	<b>178</b>		<b>178</b>	
Bifurcated embedded derivatives	<b>5</b>	6	<b>5</b>	6
<b>Total</b>	<b>55,589</b>	58,323	<b>55,127</b>	57,909

<sup>(1)</sup> *Gross financial assets before taking into account any collateral held or other credit enhancements or offsetting arrangements.*

<sup>(2)</sup> *Gross financial assets after taking into account any collateral held or other credit enhancements or offsetting arrangements or deposit insurance.*

**Table of Contents**

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2010 and 2009:

		Neither past due nor impaired		Past due but not impaired	Impaired
	Total	Class A <sup>(1)</sup>	Class B <sup>(2)</sup>		
		(in million pesos)			
<b>December 31, 2010</b>					
Loans and receivables:					
Advances and refundable deposits	1,000	951	49		
Cash and cash equivalents	36,678	35,368	1,310		
Short-term investments	152	152			
Retail subscribers	8,917	946	926	2,000	5,045
Corporate subscribers	7,998	393	612	1,037	5,956
Foreign administrations	4,479	1,756	699	1,866	158
Domestic carriers	1,591	191	23	1,239	138
Dealers, agents and others	5,273	2,599	2,013	128	533
Held-to-maturity investments:					
Investment in debt securities	484	484			
Available-for-sale financial assets	147	108	39		
Fair value through profit or loss <sup>(3)</sup> :					
Short-term investments	517	517			
Long-term currency swap	178	178			
Bifurcated embedded derivatives	5	5			
<b>Total</b>	<b>67,419</b>	<b>43,648</b>	<b>5,671</b>	<b>6,270</b>	<b>11,830</b>
<b>December 31, 2009</b>					
Loans and receivables:					
Advances and refundable deposits	849	790	59		
Cash and cash equivalents	38,319	37,767	552		
Short-term investments	3,338	2,971	367		
Corporate subscribers	9,106	1,078	283	1,068	6,677
Retail subscribers	8,026	1,236	518	1,792	4,480
Foreign administrations	4,353	1,261	451	2,352	289
Domestic carriers	1,267	157	8	1,019	83
Dealers, agents and others	3,927	2,068	1,022	416	421
Held-to-maturity investments:					
Investment in debt securities	462	462			
Available-for-sale financial assets	134	103	31		
Fair value through profit or loss <sup>(3)</sup> :					
Short-term investments	486	486			
Bifurcated embedded derivatives	6	6			
<b>Total</b>	<b>70,273</b>	<b>48,385</b>	<b>3,291</b>	<b>6,647</b>	<b>11,950</b>

- (1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*
- (2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*
- (3) *Gross receivables from counterparties, before any offsetting arrangements.*

**Table of Contents**

The aging analysis of past due but not impaired class of financial assets as at December 31, 2010 and 2009 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days (in million pesos)	61-90 days	Over 91 days	
<b>December 31, 2010</b>						
Loans and receivables:						
Advances and refundable deposits	1,000	1,000				
Cash and cash equivalents	36,678	36,678				
Short-term investments	152	152				
Retail subscribers	8,917	1,872	1,387	150	463	5,045
Corporate subscribers	7,998	1,005	642	159	236	5,956
Foreign administrations	4,479	2,455	616	393	857	158
Domestic carriers	1,591	214	165	182	892	138
Dealers, agents and others	5,273	4,612	21	20	87	533
Held-to-maturity investments:						
Investment in debt securities	484	484				
Available-for-sale financial assets	147	147				
Fair value through profit or loss:						
Short-term investments	517	517				
Long-term currency swap	178	178				
Bifurcated embedded derivatives	5	5				
<b>Total</b>	<b>67,419</b>	<b>49,319</b>	<b>2,831</b>	<b>904</b>	<b>2,535</b>	<b>11,830</b>

**December 31, 2009**

Loans and receivables:						
Advances and refundable deposits	849	849				
Cash and cash equivalents	38,319	38,319				
Short-term investments	3,338	3,338				
Corporate subscribers	9,106	1,361	433	198	437	6,677
Retail subscribers	8,026	1,754	1,362	184	246	4,480
Foreign administrations	4,353	1,712	1,320	405	627	289
Domestic carriers	1,267	165	283	293	443	83
Dealers, agents and others	3,927	3,090	332	21	63	421
Held-to-maturity investments:						

Investment in debt securities	462	462				
Available-for-sale financial assets	134	134				
Fair value through profit or loss:						
Short-term investments	486	486				
Bifurcated embedded derivatives	6	6				
<b>Total</b>	<b>70,273</b>	<b>51,676</b>	<b>3,730</b>	<b>1,101</b>	<b>1,816</b>	<b>11,950</b>

***Impairment Assessments***

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

*Individually assessed allowance*

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

**Table of Contents**

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

**Capital Management Risk**

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core income per common share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million as at December 31, 2010. We had acquired at total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. See Note 8 Earnings Per Common Share and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for further discussion.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2010 and 2009:

	<b>2010</b>	2009
	(in million pesos)	
Long-term debt, including current portion (Note 20)	<b>89,646</b>	96,450
Notes payable (Note 20)		2,279
Total consolidated debt	<b>89,646</b>	98,729
Cash and cash equivalents (Note 15)	<b>(36,678)</b>	(38,319)
Short-term investments	<b>(669)</b>	(3,824)
Net consolidated debt	<b>52,299</b>	56,586
Equity attributable to equity holders of PLDT	<b>97,069</b>	98,575
Net consolidated debt to equity ratio	<b>54%</b>	57%





**Table of Contents**

**Item 12. Description of Securities Other than Equity Securities**

*Item 12.D.3 Fees and Charges for Holders of American Depositary Receipts*

JP Morgan Chase Bank, N.A., or the depositary, as depositary of our ADS collects fees from each person to whom ADS are issued, US\$5.00 for each 100 ADS (or portion thereof) issued, delivered, reduced, cancelled or surrendered.

The depositary also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

US\$0.02 or less per ADS (or portion thereof) for any cash distribution made;

US\$1.50 per ADR for transfer made (to the extent such fee is not prohibited by the rules of the primary stock exchange upon which the ADSs are listed);

a fee in an amount equal to the fee for the execution and delivery of ADSs for the distribution or sale of securities, which would have been charged as a result of the deposit of such securities but which securities or the net proceeds from the sale thereof are instead distributed by the depositary to the holders entitled thereto;

US\$0.02 per ADS (or a portion thereof) per year for the services rendered by the depositary for administering the ADR program (which fee shall be assessed as of the record date or dates set by the depositary not more than once each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distribution);

such fees and expenses as are incurred by the depositary (including without limitation expenses incurred on behalf of holders in compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in the delivery of the common stock or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations;

stock transfer and other taxes and governmental charges (which are payable by the holder or person depositing the common stock), cable, telex and facsimile transmission and delivery charges incurred at the request of the person depositing the common stock or holder delivering the common stock, ADRs or deposited common stock (which are payable by such person or holder), transfer or registration fees for the registration or transfer of deposited common stock in connection with the deposit or withdrawal of the deposited common stock (which are payable by the person depositing or withdrawing deposited common stock), expense by the depositary in the conversion of foreign currency into U.S. dollars; and

any other charge payable by the depositary or its agents in connection with its service as depositary in implementation of the Company's ADR Program pursuant to Section 4.02, 4.03, 4.04, or 4.05 of the Deposit Agreement, as amended.

*Item 12.D.4 Fees and Other Payments Made by the Depositary to Us*

The depositary has agreed to reimburse certain reasonable expenses of PLDT related to PLDT's ADR program and incurred by PLDT in connection with the ADR program. In the year ended December 31, 2010, the depositary reimbursed US\$958,900. The amounts the depositary reimbursed are not necessarily related to the fees collected by the depositary from ADR holders. Under certain circumstances, including termination of the ADR program prior to December 31, 2011, PLDT is required to repay to the depositary amounts reimbursed in prior periods. The table below sets forth the types of expenses that the depositary has agreed to reimburse and the amounts reimbursed for the year ended December 31, 2010:

<b>Category of Expenses</b>	<b>Amount Reimbursed for</b>
Investor relations and investor event fees	US\$ 643,783
Legal and accounting fees incurred in connection with the preparation of Form 20-F, ongoing SEC compliance and listing requirements	258,103

Listing fees	57,014
<b>Total</b>	<b>US\$ 958,900</b>

As part of its service to PLDT, the depositary has agreed to waive US\$150,000 per year in annual maintenance fees for the administration of the ADR program and absorb up to US\$50,000 per year of the depositary's out-of-pocket expenses, which in aggregate is estimated to total US\$200,000 for the year ended December 31, 2010.

**Table of Contents****PART II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures.** Our management, with the participation of our principal executive officer and principal financial officer, carried out an evaluation on the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as at December 31, 2010. Based on this evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as at December 31, 2010.

**Management's Annual Report on Internal Control Over Financial Reporting.** Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed and implemented under the supervision of our principal executive officers and principal finance officers, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ( IFRS ). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the PLDT Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the PLDT Group are being made only in accordance with authorizations of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of the PLDT Group's internal control over financial reporting as of December 31, 2010, based on the criteria set forth in Internal Control – Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on this assessment, our management has determined that the internal control over financial reporting of the PLDT Group was effective as of December 31, 2010.

We reviewed the results of management's assessment with the Audit Committee of the Board of Directors.

SyCip, Gorres, Velayo & Co. ( SGV ), a member practice of the Ernst & Young Global, an independent registered public accounting firm, has audited our consolidated financial statements included in this annual report and has issued an attestation report on our internal control over financial reporting as at December 31, 2010. This attestation report is dated March 29, 2011 and is set forth in Item 18 – Financial Statements .

**Changes in Internal Control Over Financial Reporting.** During 2010, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that currently none of the members of the Audit Committee is an audit committee financial expert as defined under the applicable rules of the U.S. SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Because our board of directors believes that the audit committee members along with its advisors, possess sufficient financial knowledge and experience, our board of directors has not separately appointed an audit committee member who qualifies as an audit committee financial expert. Our board of directors has appointed Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, as Audit Committee advisor to render advice on complex financial reporting or accounting issues that may be raised in our Audit Committee's evaluation of our financial statements and other related matters. Formerly the Chairman and a Senior

**Table of Contents**

Partner of Joaquin Cunanan & Company, now Isla Lipana & Co., and a member firm of PricewaterhouseCoopers Worldwide, Ms. Corazon de la Paz-Bernardo is a certified public accountant and possesses in-depth knowledge of accounting principles (including IFRS), internal controls and procedures for financial reporting and audit committee functions, as well as extensive experience in overseeing or actively supervising the preparation, audit, analysis or evaluation of financial statements and in addressing complex and general financial reporting, accounting and audit issues.

**Item 16B. Code of Business Conduct and Ethics**

PLDT recognizes that corporate governance is a key element in its strategy to accomplish the Company's mission, create value for its shareholders and stakeholders, and sustain its long-term viability. The Company's approach is to continuously improve its governance structures and processes on three levels: (1) compliance with the standards and requirements of laws and regulatory issuances and guidelines; (2) benchmarking against recognized international best practices and monitoring developments in corporate governance; and (3) fostering an ethical corporate culture guided by the principles of accountability, integrity, fairness and transparency.

PLDT conforms to the corporate governance laws, issuances, guidelines and standards of three jurisdictions. PLDT is subject to Philippine corporate governance laws, issuances, guidelines and standards as established by the Philippine SEC and the PSE. The Company is also subject to the standards set forth in U.S. Securities Exchange Act, the Sarbanes-Oxley Act of 2002 and the NYSE Listed Company Manual. As an investee company of various Philippine and other affiliates of First Pacific, PLDT likewise endeavours to conform with certain corporate governance guidelines of First Pacific which are based on the rules of the Hong Kong Stock Exchange in which First Pacific's shares are listed. The demanding regulatory regime under which PLDT operates has provided the impetus for PLDT to impose upon itself high standards of corporate governance and business conduct.

***A. Code of Ethics and Other Policies***

The Code of Ethics was approved by the Board on March 30, 2004 and subsequently updated on July 11, 2006, the Code of Ethics sets out the Company's business principles and values, which aim to promote a culture of good corporate governance. It provides standards that govern and guide all business relationships of PLDT, its directors, officers and employees, especially with respect to the following:

Compliance with applicable laws, rules and regulations;

Ethical handling of conflicts of interest, corporate opportunities and confidential information;

Protection and proper use of company assets;

Fair dealing with employees, customers, service providers, suppliers, and competitors;

Compliance with reporting and disclosure obligations to the relevant regulators and to investors;

Compliance with disclosure and financial reporting controls and procedures;

Assessment and management of risks involved in business endeavors; and

Adoption of international best practices of good corporate governance in the conduct of the Company's business.

The Code of Ethics undergoes a mandatory review process every two years. The latest review was in October 2010. The review revealed that the Code is appropriate for the Company and compliant with the applicable laws, regulations and listing standards and that no revision was needed at that time. The GNC approved the review on November 2010.

**Table of Contents**

***Other policies***

The Company also has other policies adopted by the Board to provide both general and specific guidelines that complement the Code of Ethics.

(a) *CG Manual* The PLDT CG Manual was approved and adopted by the Board of Directors on March 26, 2010 pursuant to SEC Memorandum Circular No. 6 Series of 2009 or the Revised Code of Corporate Governance. It supersedes the CG Manual approved and adopted on September 24, 2002, as amended on March 30, 2004 and January 30, 2007. The structures and processes set forth in the CG Manual, as well as the Articles of Incorporation and By-Laws, combined with the Company's commitment to the principles of transparency, accountability, fairness and integrity, form PLDT's basic framework of governance by which our Board of Directors, officers, executives and employees strive to achieve the Company's strategic objectives, create value for all its stakeholders, and sustain its long-term viability.

In compliance with the Revised Code of Corporate Governance of the Philippine SEC and consistent with the relevant provisions of the Securities Regulation Code and Corporation Code of the Philippines, our CG Manual covers the following key areas:

the composition of our Board of Directors as well as the qualifications and grounds for disqualification for directorship;

the requirement that at least 20% of the membership of the Board of Directors, and in no case less than two members, must be independent directors and the standards/criteria for the determination of independent directors;

the duties and responsibilities of our board of directors and the individual directors;

the manner of conduct of Board meetings including the requirement to have an independent director present in every meeting to promote transparency and the need to have an executive session for non-executive and independent directors;

establishment of board committees, specifically, the audit committee, ECC and GNC including the composition and the principal duties and responsibilities of such committees, as well as the requirement for each board committee to have its own charter;

the role of the Chairman as the leader of the Board and as the prime mover in ensuring compliance with, and the performance of, corporate governance policies and practices ;

the role of the President/Chief Executive Officer in ensuring that the Company's business affairs are managed in a sound and prudent manner and that operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;

the duties and responsibilities of the Corporate Secretary/Assistant Corporate Secretary in terms of the support services that they need to provide the Board in upholding sound corporate governance;

the duties and responsibilities of the head of internal audit organization that would provide the Board of Directors, management and shareholders with reasonable assurance that the Company's key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;

the functions of the independent auditors that would reasonably ensure an environment of sound corporate governance as reflected in the Company's financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement

to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of financial statements;

the requirement to appoint a Chief Governance Officer and the duties and responsibilities of such Chief Governance Officer including the establishment of an evaluation system to determine and measure compliance with the provisions of our CG Manual;

**Table of Contents**

the duty of the Board of Directors to promote and uphold stockholders' rights such as the right to vote, pre-emptive right, the right to inspect corporate books and records, right to timely receive relevant information, right to dividends, and the appraisal right;

the requirement for the Board to explore and implement steps to reduce excessive or unnecessary costs that impede stockholders' participation and to act with transparency and fairness at the annual and special stockholders' meetings;

the Company's undertaking to disclose material information promptly and accurately as well as the imposition of reasonable rules regarding the treatment and handling of material non-public information; and

the establishment of an appropriate evaluation system for purposes of monitoring and assessing compliance with the CG Manual and other applicable laws and administrative issuances.

- (b) *Conflict of Interest Policy approved on October 24, 2005.* This Policy aims to ensure that work-related actions of our directors, officers, employees and consultants are based on sound business principles and judgment devoid of bias or partiality. It enjoins all employees to be aware of the possibility of such bias and partiality in dealings with various entities or individuals in the course of or in relation to their work. The policy likewise mandates that employees who find themselves in a possible conflict of interest situation should promptly disclose the matter to the relevant authorities. If warranted, the employee concerned should also obtain appropriate approvals and inhibit himself from any action, transaction or decision involving an existing or potential conflict of interest.
- (c) *Policy on Gifts, Entertainment and Sponsored Travel approved on January 31, 2006.* This Policy provides safeguards so that the custom of giving gifts is handled in accordance with the principles of integrity, accountability, fairness and transparency. It aims to prevent the occurrence of situations or actions that could significantly affect objective, independent or effective performance of an employee's duties. Specifically, it prohibits the solicitation of gifts, sponsored travel, and entertainment from third parties. Receipt and acceptance of gifts voluntarily given by such third parties are handled according to this policy as well.
- (d) *Supplier/Contractor Relations Policy approved on January 31, 2006.* This Policy seeks to ensure that the Company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services. The policy also seeks to maintain PLDT's reputation for equal opportunity and honest treatment of suppliers in all business transactions. The policy establishes clear rules for arm's length transactions and fair treatment of prospective and existing suppliers with the objective of always obtaining the best value for the company.
- (e) *Policy on Employee Disclosure on Violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by PLDT's Table of Penalties (or the Expanded Whistleblowing Policy) approved on May 9, 2006.* This Policy provides guidelines on handling employee disclosure or complaints of violation of rules pertaining to the aforesaid matters, protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint.

Detailed implementing guidelines are likewise issued for the said policies to ensure their wide observance. All these policies and rules (collectively, the Corporate Governance, or CG Rules) are periodically reviewed to ensure that they are appropriate for PLDT, keep pace with comparable and applicable global best practices, and are compliant with the requirements of the Philippine and U.S. SEC, NYSE and Hong Kong Stock Exchange corporate governance rules, as may be appropriate and applicable.

To access the Code of Ethics, CG Manual or information on how our corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11 differ, please refer to:

[http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT\\_Code\\_of\\_Business\\_Co\\_and\\_Ethics.pdf](http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT_Code_of_Business_Co_and_Ethics.pdf)



[http://www.pldt.com.ph/governance/about/Documents/22336f71c88c495793d15575c2addffcpldtcorpgov\\_manual.pdf](http://www.pldt.com.ph/governance/about/Documents/22336f71c88c495793d15575c2addffcpldtcorpgov_manual.pdf)

<http://www.pldt.com.ph/governance/about/Documents/f7933d17962d4b2c942e50ba4980f21bpldtdisclosure.pdf>

**Table of Contents**

Our subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies similar in substance and form to PLDT’s CG Rules, as well as appointed their respective corporate governance officers.

As part of the embedding of corporate governance standards in performance evaluation of personnel, the Company includes corporate governance policy violations as a cause for disqualification in incentives and rewards in its Policy on Employee Qualification for Incentives and Rewards. PLDT Officers and Executives have also been required to submit Conflict of Interest Disclosures in order to maintain strict observance of the PLDT Conflict of Interest Policy. PLDT is progressively institutionalizing the practice of timely and transparent disclosures down to the level of rank and file employees.

Pursuant to the Expanded Whistleblowing Policy, PLDT maintains an Expanded Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. Any employee may submit a complaint or disclosure of the above nature to the Chief Governance Officer or to the CGO, verbally or in writing. The CGO then conducts a preliminary evaluation to determine the appropriate investigating unit to which the case shall be assigned for further action. The CGO monitors the cases reported and ensures appropriate reporting to the Audit Committee, GNC, or any other relevant committee or body on the results of the investigations and the prompt referrals of findings to the appropriate units concerned. The Company’s committees on officer or employee discipline, as the case may be, are responsible for evaluating and approving the appropriate disciplinary action against erring officers and employees.

The system is open to all employees who come forward in good faith, regardless of rank or status to report violations of CG Rules or any act that may be considered as contrary to the Company’s values of accountability, integrity, fairness and transparency. Finally, the Company, also promptly addresses queries and requests for opinions from operating units to provide guidance and ensure adherence to CG rules and values.

To make sure that relations between the Company and its business partners are imbued with shared standards on good corporate governance, the Company has developed written corporate governance guidelines for suppliers and contractors to which the Company’s suppliers and contractors are expected to consent in writing, thereby ensuring that they understand and accept these standards as indispensable in doing business with PLDT. The Company also conducts suppliers /contractors briefings and communicates to its business partners, including suppliers, the Company’s commitment to, as well as expectations on, good corporate governance.

***B. Enhancements and Education***

PLDT recognizes the need for providing the appropriate environment for encouraging ethical behavior as a means of developing the desired corporate culture. PLDT’s corporate governance education and communication activities aim to reach out to all PLDT personnel through face-to-face and on-line trainings and workshops, and the production and dissemination of relevant corporate governance materials. In 2010, PLDT corporate governance materials revolved around the theme “Our Values at Work” which exhorted all company personnel to apply the values of accountability, integrity, fairness and transparency as aids and tools in the pursuit of outstanding and principled performance.

PLDT invests considerable resources in the continuous training of its Board and senior management in corporate governance, PLDT has organized and conducted four (4) corporate governance enhancement sessions since 2007 and has invited internationally-known experts to share their insights and interact with PLDT’s Board and senior management. All of the PLDT Directors have attended at least one (1) corporate governance enhancement session. On the other hand, fifty (50) out of the fifty seven (57) active members of PLDT’s senior management have attended at least one (1) corporate governance enhancement session.

***C. Performance Evaluation***

The Board commits itself to a process of self-improvement. In the past year, the Board continued its pioneering practice in the Philippines of conducting a periodic performance self assessment. The Board, through its individual members, assessed its collective performance as well as that of the individuals that comprise it and its committees. The Board utilizes a self-assessment tool developed with reference to the Philippine SEC’s Revised Code of Corporate Governance and Self-Rating Form, PLDT’s CG Manual and Code of Ethics, Sarbanes-Oxley Act, NYSE Rules, the survey questions of the Institute of Corporate Directors, and established global best-practices. The

**Table of Contents**

assessment instrument includes an evaluation of the Board's structure, processes and responsibilities, as well as the performance of the Chief Executive Officer. Results of the assessment are used to develop strategies to strengthen and enhance, among others, PLDT's governance practices.

***D. Governance Structures***

***Board of Directors***

It is the Board of Directors which has the primary responsibility for ensuring principled business conduct in pursuit of promoting and protecting the interest of the Company, its stockholders, and all other stakeholders. The Board of Directors functions within the scope of its powers and authority provided in applicable laws, rules and regulations, and the Company's By-Laws, and conducts itself in accordance with Company policies such as the CG Manual and the Code of Ethics.

The positions of Chairman and CEO are held separately by two individuals, Mr. Manuel V. Pangilinan and Mr. Napoleon L. Nazareno, respectively. Each position has been given distinct and separate duties and responsibilities pursuant to the provisions of PLDT's By-Laws and CG Manual.

Independent oversight by the PLDT Board over management is enhanced through PLDT's independent directors and non-executive directors. PLDT has four (4) duly-screened and qualified independent directors, namely: Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Oscar S. Reyes<sup>(1)</sup>, Mr. Pedro E. Roxas, and Mr. Alfred V. Ty. The number of PLDT's independent directors surpasses that required under local regulations of at least two (2) independent directors or twenty percent (20%) of the entire board membership, whichever is lower. With the exception of Mr. Napoleon L. Nazareno and Atty. Ray C. Espinosa, all the members of the Board are non-executive directors.

<sup>(1)</sup> *Mr. Reyes' status as an independent director ceased as at August 3, 2010 when he was appointed Chief Operating Officer of Meralco, an affiliate and investee company of the PLDT Group.*  
*Chief Executive Officer*

Under the overall guidance and oversight of the Board, the CEO is charged with the general care, management and administration of the business operations of the Company. He provides leadership for Management in developing and implementing business strategies, plans and budgets. More importantly, he ensures that: the business and affairs of the Company are managed in a sound and prudent manner; and operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts. The CEO also has the responsibility to provide the Board with a balanced and understandable account of the Company's performance, financial condition, results of operations and prospects, on a regular basis.

***Internal Audit Organization***

We have an internal audit organization that determines whether our network or risk management, control and governance processes are adequate and functioning to ensure that:

1. Risks are appropriately identified and managed;
2. Significant financial, managerial, and operating information are accurate, reliable and timely;
3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
4. Resources are acquired economically, used efficiently and adequately protected;
5. Programs, plans and objectives are achieved;
6. Quality and continuous improvement are fostered in our control process;
7. Significant legislative or regulatory issues impacting us are recognized and addressed appropriately; and
8. Interaction with various governance groups occurs as needed.



**Table of Contents**

To ensure independence, the head of our internal audit organization reports functionally to our audit committee and administratively to our president and chief executive officer. He is accountable to management and our audit committee in the discharge of his duties and is required to:

1. Provide annually an assessment on the adequacy and effectiveness of our processes for controlling our activities and managing our risks;
2. Report significant issues related to the processes of controlling our activities, including potential improvements to those processes, and provide information concerning such issues;
3. Periodically provide information on the status and results of the annual audit plan and the sufficiency of our internal audit organization's resources; and
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Our internal audit organization has a charter that has been approved by our audit committee. It seeks to comply with the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors in the discharge of its scope of work and responsibilities.

*Chief Governance Officer*

The corporate governance compliance system established in the CG Manual includes the designation by the Board of a Chief Governance Officer who reports to the Chairman of the Board and the GNC. The primary responsibilities of the Chief Governance Officer include monitoring compliance with the provisions and requirements of corporate governance laws, rules and regulations, reporting violations and recommending the imposition of disciplinary actions, and adopting measures to prevent the repetition of such violations.

In addition, the Chief Governance Officer assists the Board and the GNC in the performance of their governance functions, including their duties to oversee the formulation or review and implementation of the corporate governance structure and policies of the Company, the establishment of an evaluation system to verify and measure compliance with the CG Manual in relation to related laws, rules and regulations, and to oversee the conduct of a self-assessment of the performance and effectiveness of the Board, the Board Committees, and individual Board members in carrying out their functions.

*Corporate Governance Office*

The Chief Governance Officer is supported by a CGO. The CGO personnel are entrusted with overseeing PLDT's three Es of Corporate Governance: Engineering, Enforcement and Education. CG Engineering refers to the continuing development, drafting, issuance and review of appropriate corporate governance-related policies to guide company personnel. Enforcement is required to ensure equal compliance by company personnel with the corporate governance policies so issued and enacted. Education rounds off the process by ensuring the development of the proper knowledge, skills, attitudes and habits that would promote voluntary observance of corporate governance policies and, more importantly, PLDT's four core values of accountability, integrity, fairness and transparency.

Further information on our Code of Ethics, Governance Manual and Charters of our Board Committees are available on our website. We undertake to provide a copy, without charge, to any person requesting for a copy of any, or both, of the Code of Ethics and Governance Manual from our chief governance officer, Atty. Ma. Lourdes C. Rausa-Chan, who can be reached at e-mail address [lrchan@pldt.com.ph](mailto:lrchan@pldt.com.ph) or telephone number +632-816-8556. We also maintain a website at [www.pldt.com.ph](http://www.pldt.com.ph) on which reports filed by us and other information may be accessed.

**Table of Contents****Item 16C. Principal Accountant Fees and Services**

The following table summarizes the fees paid or accrued for services rendered by our independent auditor for the years ended December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
	(in millions)	
Audit Fees	Php39	Php46
All Other Fees	15	19
<b>Total</b>	<b>Php54</b>	<b>Php65</b>

*Audit Fees.* This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those fiscal years.

*All Other Fees.* This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment, certain projects and out-of-pocket and incidental expenses.

The fees presented above include out-of-pocket expenses incidental to our independent auditors' work, the amount of which do not exceed 5% of the agreed-upon engagement fees.

Our audit committee pre-approved all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

**Item 16D. Exemption from the Listing Standards for Audit Committees**

Not applicable.

**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchaser**

In 2008, we obtained our board of directors' approval on a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2010. The table below sets forth purchases made by or on behalf of PLDT of shares of PLDT's common stock for years ended December 31, 2010, 2009 and 2008:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Programs</b>
March 17-19, 2008	60,000	2,635	60,000	1,940,000 <sup>(2)</sup>
March 24-27, 2008	92,440	2,708	152,440	1,847,560
April 4, 2008	30,000	2,782	182,440	1,817,560
April 8-11, 2008	62,000	2,777	244,440	1,755,560
April 14-18, 2008	101,820	2,727	346,260	1,653,740
May 9, 2008	25,000	2,588	371,260	1,628,740
May 12-16, 2008	144,810	2,658	516,070	1,483,930
May 19-23, 2008	115,920	2,660	631,990	1,368,010
May 26-30, 2008	83,050	2,618	715,040	1,284,960
June 2-6, 2008	137,710	2,556	852,750	1,147,250
June 10-13, 2008	138,280	2,361	991,030	1,008,970
June 16-20, 2008	168,030	2,449	1,159,060	840,940
June 23-27, 2008	182,630	2,416	1,341,690	658,310
June 30, 2008	41,720	2,394	1,383,410	616,590
July 1-4, 2008	150,440	2,344	1,533,850	466,150
July 7-10, 2008	121,890	2,430	1,655,740	344,260
July 14-16, 2008	83,890	2,413	1,739,630	260,370
September 15-16, 2008	16,410	2,571	1,756,040	2,243,960 <sup>(2)</sup>
September 18, 2008	4,000	2,465	1,760,040	2,239,960
September 23, 2008	3,100	2,595	1,763,140	2,236,860
September 30, 2008	10,440	2,646	1,773,580	2,226,420
October 3, 2008	20,000	2,695	1,793,580	2,206,420
October 6-10, 2008	76,150	2,502	1,869,730	2,130,270
October 13-17, 2008	90,160	2,328	1,959,890	2,040,110
November 7, 2008	12,400	1,983	1,972,290	3,027,710 <sup>(2)</sup>
March 17-18, 2009	39,060	1,876	2,011,350	2,988,650
March 20, 2009	130,000	1,980	2,141,350	2,858,650
March 23, 2009	523,226	2,020	2,664,576	2,335,424
September 18, 2009	13,210	2,306	2,677,786	2,322,214
September 22, 2009	5,170	2,330	2,682,956	2,317,044
November 9, 2010	20,000	2,416	2,702,956	2,297,044

November 10, 2010	21,155	2,421	2,724,111	2,275,889
Total	2,724,111			

- (1) *Outside the share buyback program, we did not repurchase any of our shares in the year ended December 31, 2010.*
- (2) *The Board of Directors approved the initial share buyback program of up to two million shares of PLDT's common stock on January 29, 2008, authorized the repurchase of up to another two million shares on August 5, 2008, and approved the repurchase of an additional one million shares on December 9, 2008.*

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

PLDT is a Philippine company with its shares of common stock listed on the PSE and ADSs listed on the NYSE. As a foreign private issuer, PLDT is permitted under the NYSE listing standards to follow Philippine corporate governance practices on most corporate governance matters, and, accordingly, PLDT complies with the Philippine SEC Governance Code in respect of its corporate governance practices as well as with the NYSE listing standards applicable to foreign private issuers. PLDT's corporate governance practices are generally consistent with the NYSE listing standards, except that PLDT's corporate governance practices differ from U.S. companies under the NYSE listing standards in the significant ways summarized below.



## Table of Contents

***Number of Independent Directors.*** The NYSE listing standards require a majority of the board of directors to be independent. We have four independent directors out of 13 directors, which exceeds the requirements under the Philippine SEC Governance Code that at least two members or 20% of the board of directors must be independent.

***Director Independence Tests.*** There are differences between the director independence tests applied in PLDT's corporate governance practice and those under the NYSE listing standards. In some cases, the independence tests set forth in the NYSE listing standards are more stringent than those under PLDT's corporate governance practice and vice versa.

- o Examples where the NYSE listing standards impose more stringent standards than PLDT's corporate governance practices include the auditor affiliation test. In contrast to the NYSE listing standards, under PLDT's By-Laws and Board Committee charters, present or previous affiliation or employment of a director's immediate family member with the external auditors, or a director's past or present affiliation with a firm that is PLDT's internal auditor do not preclude a determination that such director is independent.
- o Examples where PLDT's corporate governance practices impose more stringent standards than NYSE listing standards include the look back periods for the independence tests and the material relationship with the listed company test. The look back period for each of the past employment and the auditor affiliation tests under PLDT's corporate governance practices is five years compared to three years under the NYSE listing standards. Furthermore, in respect of material relationships that preclude an independence finding, PLDT's Corporate Governance Manual provides that a director who is, or whose relative is, a substantial shareholder of PLDT, any of its related companies or any of its substantial shareholders cannot be considered as independent.

***Meetings of non-management/independent directors.*** The NYSE listing standards require regularly scheduled executive sessions consisting of non-management directors without management present or regularly scheduled executive sessions consisting of only independent directors. As part of the Board assessment process formally adopted by the GNC, PLDT's independent directors and/or non-management directors hold meetings at least once a year to, among other things, discuss and evaluate the results of the Board's annual self-assessment. In addition, while PLDT's Corporate Governance Manual does not mandate the holding of regularly scheduled executive sessions with non-management directors nor executive sessions with only independent directors, PLDT's independent and/or non-management directors, through the Audit Committee and the GNC, in either or both of which all independent directors and most non-management directors are serving as members or advisors, are provided the opportunity to have open discussions, whether individually or as a group, without the presence of management/executive directors.

***Nominating/Corporate Governance Committee and Compensation Committee.*** The NYSE listing standards require a listed company to maintain a nominating/corporate governance committee and a compensation committee, both composed entirely of independent directors. Our GNC and our ECC is each composed of five voting members, a majority of whom are independent directors, which exceeds the requirements under the Philippine SEC Governance Code that one of the at least three voting members of the nominating/corporate governance committee and one of the at least three members of the compensation committee must be independent.

***Audit Committee.*** As required by NYSE listing standards, PLDT maintains an audit committee in full compliance with Rule 10A-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and Section 303A.06 of the NYSE Listed Company Manual. All of the members of PLDT's Audit Committee are independent directors meeting the independence requirements of Rule 10A-3 as well as those under Section 303A.07 of the NYSE Listed Company Manual, except in those areas where our independence tests

under the Philippine SEC Governance Code differ from those under the NYSE listing standards, as discussed above.

The differences between our corporate governance practices and the NYSE listing standards is set forth on our website at: [http://www.pldt.com.ph/governance/Documents/NYSE-PLDT\\_CG-DISC303A%2011\\_2010.pdf](http://www.pldt.com.ph/governance/Documents/NYSE-PLDT_CG-DISC303A%2011_2010.pdf).

**PART III**

**Item 17. Financial Statements**

PLDT has elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Table of Contents**

**Item 18. Financial Statements**

Index to Financial Statements

	<b>Page</b>
<b><u>PHILIPPINE LONG DISTANCE TELEPHONE COMPANY ANNUAL FINANCIAL STATEMENTS</u></b>	
<u>Attestation Report of the Independent Registered Public Accounting Firm</u>	161
<u>Report of Independent Registered Public Accounting Firm</u>	163
<u>Consolidated Statements of Financial Position as at December 31, 2010 and 2009</u>	165
<u>Consolidated Income Statements for the Years Ended December 31, 2010 and 2009</u>	166
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2010 and 2009</u>	167
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2010 and 2009</u>	168
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010 and 2009</u>	169
<u>Notes to Consolidated Financial Statements</u>	171

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and the Stockholders

Philippine Long Distance Telephone Company

We have audited Philippine Long Distance Telephone Company and subsidiaries (collectively referred to as the PLDT Group) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The PLDT Group's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the PLDT Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**Table of Contents**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the PLDT Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the PLDT Group as of December 31, 2010 and 2009, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and our report dated March 29, 2011 expressed an unqualified opinion thereon.

/s/ SyCip Gorres Velayo & Co.

Makati City, Philippines

March 29, 2011

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Stockholders and the Board of Directors  
Philippine Long Distance Telephone Company

We have audited the accompanying consolidated statements of financial position of Philippine Long Distance Telephone Company and Subsidiaries (collectively referred to as the PLDT Group ) as of December 31, 2010 and 2009, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the PLDT Group s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the PLDT Group at December 31, 2010 and 2009, and the consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the PLDT Group s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2011 expressed an unqualified opinion thereon.

/s/ SyCip Gorres Velayo & Co.

Makati City, Philippines

March 29, 2011

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2010 and 2009**

**(in million pesos, except par value and number of shares)**

	2010	2009
<b>ASSETS</b>		
<b>Noncurrent Assets</b>		
Property, plant and equipment (Notes 3, 5, 9, 13, 20 and 28)	163,184	161,256
Investments in associates and joint ventures (Notes 3, 4, 5, 10, 24 and 28)	23,203	22,233
Available-for-sale financial assets (Notes 6, 13 and 28)	147	134
Investment in debt securities (Notes 11 and 28)	484	462
Investment properties (Notes 3, 6, 9, 12 and 28)	1,560	1,210
Goodwill and intangible assets (Notes 3, 4, 5, 13, 14, 21 and 28)	11,485	13,024
Deferred income tax assets net (Notes 3, 4, 7, 13 and 28)	6,110	7,721
Derivative financial assets (Note 28)	178	
Prepayments net of current portion (Notes 3, 5, 13, 18, 25 and 28)	8,679	8,663
Advances and refundable deposits net of current portion (Notes 13 and 28)	1,187	1,102
<b>Total Noncurrent Assets</b>	<b>216,217</b>	<b>215,805</b>
<b>Current Assets</b>		
Cash and cash equivalents (Notes 13, 15 and 28)	36,678	38,319
Short-term investments (Note 28)	669	3,824
Trade and other receivables (Notes 3, 5, 13, 16, 18, 24 and 28)	16,428	14,729
Inventories and supplies (Notes 3, 4, 5, 13, 17 and 28)	2,219	2,165
Derivative financial assets (Note 28)	5	6
Current portion of prepayments (Notes 13, 18 and 28)	5,418	5,098
Current portion of advances and refundable deposits (Notes 13 and 28)	181	202
<b>Total Current Assets</b>	<b>61,598</b>	<b>64,343</b>
<b>TOTAL ASSETS</b>	<b>277,815</b>	<b>280,148</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Preferred stock, Php10 par value per share, authorized - 822,500,000 shares; issued and outstanding - 441,887,387 shares as at December 31, 2010 and 441,631,062 shares as at December 31, 2009 (Notes 8, 19 and 28)	4,419	4,416
Common stock, Php5 par value per share, authorized - 234,000,000 shares; issued - 189,480,549 shares and outstanding - 186,756,438 shares as at December 31, 2010; and issued - 189,480,260 shares and outstanding - 186,797,304 shares as at December 31, 2009 (Notes 8, 19 and 28)	947	947
	<b>(6,505)</b>	<b>(6,405)</b>

Treasury stock - 2,724,111 shares as at December 31, 2010 and 2,682,956 shares as at December 31, 2009 (Notes 8, 19 and 28)		
Capital in excess of par value (Note 13)	<b>62,890</b>	62,890
Retained earnings (Note 19)	<b>36,594</b>	37,744
Other comprehensive income (Note 6)	<b>(1,276)</b>	(1,017)
Total Equity Attributable to Equity Holders of PLDT	<b>97,069</b>	98,575
Non-controlling interests (Notes 6 and 13)	<b>316</b>	550
<b>TOTAL EQUITY</b>	<b>97,385</b>	99,125



**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION** *(continued)*

**December 31, 2010 and 2009**

**(in million pesos, except par value and number of shares)**

	2010	2009
<b>Noncurrent Liabilities</b>		
Interest-bearing financial liabilities net of current portion (Notes 3, 4, 5, 9, 13, 20, 23, 26 and 28)	75,888	86,079
Deferred income tax liabilities net (Notes 3, 4, 7, 13 and 28)	1,099	1,321
Derivative financial liabilities (Notes 26 and 28)	3,604	2,751
Pension and other employee benefits (Notes 3, 5, 13, 23, 25, 26 and 28)	1,834	374
Customers deposits (Notes 26 and 28)	2,223	2,166
Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 13, 14, 21, 23, 28 and 29)	13,567	14,438
Total Noncurrent Liabilities	98,215	107,129
<b>Current Liabilities</b>		
Accounts payable (Notes 13, 22, 24, 26, 27 and 28)	25,804	19,601
Accrued expenses and other current liabilities (Notes 3, 10, 13, 14, 20, 21, 23, 24, 25, 26, 27 and 28)	35,959	35,446
Provision for assessments (Notes 3, 26, 27 and 28)	1,555	1,555
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 13, 20, 23, 26 and 28)	13,801	12,714
Dividends payable (Notes 13, 19, 26 and 28)	2,086	1,749
Income tax payable (Notes 7, 13 and 28)	3,010	2,829
Total Current Liabilities	82,215	73,894
<b>TOTAL LIABILITIES</b>	<b>180,430</b>	<b>181,023</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>277,815</b>	<b>280,148</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENTS**

**For the Years Ended December 31, 2010, 2009 and 2008**

**(in million pesos, except earnings per common share amounts)**

	2010	2009	2008
<b>REVENUES</b>			
Service revenues (Notes 3 and 4)	142,242	145,567	142,873
Non-service revenues (Notes 3, 4 and 5)	2,217	2,426	2,964
	<b>144,459</b>	147,993	145,837
<b>EXPENSES</b>			
Depreciation and amortization (Notes 3, 4 and 9)	26,277	25,607	24,709
Compensation and employee benefits (Notes 3, 5 and 25)	24,070	23,100	20,709
Repairs and maintenance (Notes 12, 17 and 24)	9,434	8,631	8,569
Selling and promotions (Note 8)	5,284	5,749	5,695
Professional and other contracted services (Note 24)	4,853	4,361	4,591
Cost of sales (Notes 5, 17 and 24)	4,771	5,432	5,252
Rent (Notes 3 and 26)	3,970	4,055	3,656
Taxes and licenses (Note 27)	2,571	2,881	2,736
Asset impairment (Notes 3, 4, 5, 9, 10, 14, 16, 17, 18 and 28)	2,438	5,061	4,180
Communication, training and travel	1,832	1,902	1,993
Insurance and security services (Note 24)	1,252	1,264	1,196
Amortization of intangible assets (Notes 3, 4 and 14)	388	368	377
Other expenses (Note 24)	1,763	1,700	2,123
	<b>88,903</b>	90,111	85,786
	<b>55,556</b>	57,882	60,051
<b>OTHER INCOME (EXPENSES)</b>			
Foreign exchange gains (losses) net (Notes 4, 9 and 28)	1,807	909	(6,170)
Equity share in net earnings (losses) of associates and joint ventures (Notes 4 and 10)	1,408	2	(176)
Interest income (Notes 4, 5, 11 and 15)	1,200	1,539	1,668
Gains (losses) on derivative financial instruments net (Notes 4 and 28)	(1,741)	(1,006)	3,115
Financing costs net (Notes 4, 5, 9, 20 and 28)	(6,698)	(6,556)	(6,104)
Other income (Notes 4 and 18)	2,153	2,069	1,665
	<b>(1,871)</b>	(3,043)	(6,002)
<b>INCOME BEFORE INCOME TAX</b> (Note 4)	<b>53,685</b>	54,839	54,049
<b>PROVISION FOR INCOME TAX</b> (Notes 3, 4 and 7)	<b>13,426</b>	14,744	19,073

<b>NET INCOME FOR THE YEAR</b> (Note 4)	<b>40,259</b>	40,095	34,976
<b>ATTRIBUTABLE TO:</b>			
Equity holders of PLDT (Notes 4 and 8)	<b>40,217</b>	39,781	34,317
Non-controlling interests (Note 4)	<b>42</b>	314	659
	<b>40,259</b>	40,095	34,976
<b>Earnings Per Share For The Year Attributable to Common Equity Holders of PLDT</b> (Note 8)			
Basic	<b>212.85</b>	210.38	179.96
Diluted	<b>212.85</b>	210.36	179.95

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the Years Ended December 31, 2010, 2009 and 2008**

**(in million pesos)**

	<b>2010</b>	2009	2008
<b>NET INCOME FOR THE YEAR</b> (Note 4)	<b>40,259</b>	40,095	34,976
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 6)			
Revaluation increment on investment properties:	<b>314</b>		
Revaluation increment of property, plant and equipment transferred to investment properties during the year	<b>449</b>		
Income tax related to revaluation increment charged directly to equity	<b>(135)</b>		
Net gains (losses) on available-for-sale financial assets:	<b>22</b>	3	(9)
Gains (losses) from changes in fair value recognized during the year	<b>23</b>	3	(9)
Losses removed from other comprehensive income taken to income	<b>3</b>		
Income tax related to fair value adjustments charged directly to equity	<b>(4)</b>		
Foreign currency translation differences of subsidiaries	<b>(761)</b>	(657)	1,490
Net transactions on cash flow hedges net of tax:			(411)
Net losses on cash flow hedges			(662)
Income tax related to cash flow hedges:			251
Charged directly to equity			251
Total Other Comprehensive Income (Loss)	<b>(425)</b>	(654)	1,070
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>39,834</b>	39,441	36,046
<b>ATTRIBUTABLE TO:</b>			
Equity holders of PLDT	<b>39,958</b>	39,142	35,322
Non-controlling interests	<b>(124)</b>	299	724
	<b>39,834</b>	39,441	36,046

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**For the Years Ended December 31, 2010, 2009 and 2008**

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Options Issued	Equity Portion of Capital Convertible in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Total Equity Attributable to Equity Holders	Non- controlling Interests	Total Equity	
<b>Balances as at January 1, 2008</b>	4,417	943		9	6	67,057	39,894	(1,383)	110,943	1,402	112,345
Total comprehensive income for the year:							34,317	1,005	35,322	724	36,046
Net income for the year (Notes 4 and 8)						34,317		34,317	659	34,976	
Other comprehensive income (Note 6)							1,005	1,005	65	1,070	
Cash dividends (Note 19)						(37,034)		(37,034)	(398)	(37,432)	
Issuance of capital stock net of conversion (Note 19)	(2)	4			(6)	1,270		1,266		1,266	
Exercised option shares				(3)		10		7		7	
Acquisition of treasury stocks (Notes 2, 8, 19 and 25)			(4,973)					(4,973)	(308)	(5,281)	
Business combinations and others (Note 13)									18	18	
<b>Balances as at December 31, 2008</b>	4,415	947	(4,973)	6		68,337	37,177	(378)	105,531	1,438	106,969
	4,415	947	(4,973)	6		68,337	37,177	(378)	105,531	1,438	106,969

**Balances as at  
January 1, 2009**

Total comprehensive income for the year:									
Net income for the year (Notes 4 and 8)				39,781	(639)	39,142	299	39,441	
Other comprehensive income (Note 6)					(639)	(639)	(15)	(654)	
Cash dividends (Note 19)				(39,214)		(39,214)	(436)	(39,650)	
Issuance of capital stock net of conversion (Note 19)	1			11		12		12	
Exercised option shares			(6)	21		15		15	
Acquisition of treasury stocks (Notes 2, 8, 19 and 25)			(1,432)			(1,432)	(320)	(1,752)	
Business combinations and others (Note 13)				(5,479)		(5,479)	(431)	(5,910)	

**Balances as at  
December 31,  
2009**

	<b>4,416</b>	<b>947</b>	<b>(6,405)</b>	<b>62,890</b>	<b>37,744</b>	<b>(1,017)</b>	<b>98,575</b>	<b>550</b>	<b>99,125</b>
--	--------------	------------	----------------	---------------	---------------	----------------	---------------	------------	---------------

**Balances as at  
January 1, 2010**

	<b>4,416</b>	<b>947</b>	<b>(6,405)</b>	<b>62,890</b>	<b>37,744</b>	<b>(1,017)</b>	<b>98,575</b>	<b>550</b>	<b>99,125</b>
--	--------------	------------	----------------	---------------	---------------	----------------	---------------	------------	---------------

Total comprehensive income for the year:									
Net income for the year (Notes 4 and 8)				40,217	(259)	39,958	(124)	39,834	
Other comprehensive income (Note 6)					(259)	(259)	(166)	(425)	
Cash dividends (Note 19)				(41,367)		(41,367)	(50)	(41,417)	
Issuance of capital stock net of conversion (Note 19)	3					3		3	

Acquisition of treasury stocks (Notes 2, 8, 19 and 25)			(100)				(100)	(6)	(106)
Business combinations and others (Note 13)								(54)	(54)
<b>Balances as at December 31, 2010</b>	<b>4,419</b>	<b>947</b>	<b>(6,505)</b>	<b>62,890</b>	<b>36,594</b>	<b>(1,276)</b>	<b>97,069</b>	<b>316</b>	<b>97,385</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2010, 2009 and 2008**  
**(in million pesos)**

	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax (Note 4)	<b>53,685</b>	54,839	54,049
Adjustments for:			
Depreciation and amortization (Notes 3, 4 and 9)	<b>26,277</b>	25,607	24,709
Interest on loans and other related items net (Notes 4, 5, 9, 20 and 28)	<b>5,471</b>	5,317	5,083
Asset impairment (Notes 3, 4, 5, 9, 10, 14, 16, 17 and 28)	<b>2,438</b>	5,061	4,180
Losses (gains) on derivative financial instruments net (Notes 4 and 28)	<b>1,741</b>	1,006	(3,115)
Incentive plans (Notes 3, 5 and 25)	<b>1,392</b>	1,833	1,281
Accretion on financial liabilities net (Notes 5, 20 and 28)	<b>1,177</b>	1,062	956
Amortization of intangible assets (Notes 3 and 14)	<b>388</b>	368	377
Pension benefit costs (Notes 3, 5 and 25)	<b>236</b>	1,306	725
Gains on disposal of property, plant and equipment (Note 9)	<b>(913)</b>	(127)	(534)
Interest income (Notes 4, 5 and 15)	<b>(1,200)</b>	(1,539)	(1,668)
Equity share in net losses (earnings) of associates and joint ventures (Notes 4 and 10)	<b>(1,408)</b>	(2)	176
Foreign exchange losses (gains) net (Notes 4, 9 and 28)	<b>(1,807)</b>	(909)	6,170
Dividends on preferred stock subject to mandatory redemption (Notes 5 and 8)			4
Others	<b>(352)</b>	(802)	830
Operating income before changes in assets and liabilities	<b>87,125</b>	93,020	93,223
Decrease (increase) in:			
Trade and other receivables	<b>(3,132)</b>	(1,324)	(3,003)
Inventories and supplies	<b>89</b>	(305)	(913)
Prepayments	<b>(146)</b>	(1,333)	(877)
Advances and refundable deposits	<b>(15)</b>	271	(1,338)
Increase (decrease) in:			
Accounts payable	<b>6,407</b>	130	5,244
Accrued expenses and other current liabilities	<b>3,722</b>	8,227	2,084
Pension and other employee benefits	<b>(4,603)</b>	(9,071)	(1,125)
Customers deposits	<b>57</b>	32	27
Other noncurrent liabilities	<b>50</b>	(46)	1
Net cash generated from operations	<b>89,554</b>	89,601	93,323
Income taxes paid	<b>(12,294)</b>	(15,215)	(15,021)
Net cash provided by operating activities	<b>77,260</b>	74,386	78,302
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from:			
Maturity of short-term investments	<b>6,256</b>	9,728	28,476
Disposal of property, plant and equipment (Note 9)	<b>859</b>	932	1,015
Redemption of investment in debt securities	<b>409</b>	4,005	2,676
Disposal of investment properties (Note 12)	<b>89</b>	18	9



Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Disposal of investments held-for-sale	<b>10</b>		
Disposal of available-for-sale financial assets			174
Disposal of investment in associates			3
Interest received	<b>1,165</b>	1,352	1,461
Dividends received	<b>534</b>	360	
Payments for:			
Available-for-sale financial assets	<b>(2)</b>		(206)
Acquisition of intangibles (Notes 13 and 14)	<b>(13)</b>	(21)	(69)
Purchase of subsidiaries and non-controlling interests net of cash acquired (Note 13)	<b>(188)</b>	(8,989)	(743)
Purchase of investment in debt securities (Note 10)	<b>(403)</b>	(3,572)	(3,457)
Short-term investments	<b>(3,114)</b>	(6,838)	(21,072)
Notes receivable		(80)	
Purchase of investments in associates (Note 10)		(18,070)	
Interest paid capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 28)	<b>(710)</b>	(691)	(778)
Additions to property, plant and equipment (Notes 4 and 9)	<b>(28,056)</b>	(27,378)	(24,425)
Decrease (increase) in advances and refundable deposits	<b>(119)</b>	112	(78)
Net cash used in investing activities	<b>(23,283)</b>	(49,132)	(17,014)

**Table of Contents**

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** *(continued)*  
**For the Years Ended December 31, 2010, 2009 and 2008**  
(in million pesos)

	2010	2009	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of long-term debt (Note 20)	7,246	41,989	17,912
Availment of long-term financing for capital expenditures	3,777	7,993	6,614
Proceeds from issuance of capital stock	3	18	8
Payments of obligations under finance lease	(29)	(24)	(474)
Payments for acquisition of treasury shares (Notes 8, 19 and 28)	(106)	(1,752)	(5,281)
Payments of debt issuance costs (Note 20)	(111)	(173)	(149)
Settlements of derivative financial instruments (Note 28)	(1,095)	(1,913)	(2,891)
Payments of notes payable (Note 20)	(2,274)	(270)	(678)
Settlement of long-term financing for capital expenditures	(3,702)	(4,678)	(5,519)
Interest paid net of capitalized portion (Notes 5, 20 and 28)	(5,580)	(5,239)	(5,167)
Payments of long-term debt (Note 20)	(12,371)	(18,958)	(13,375)
Cash dividends paid (Note 19)	(41,080)	(39,286)	(37,124)
Proceeds from notes payable (Note 20)		2,000	660
Net cash used in financing activities	(55,322)	(20,293)	(45,464)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	(296)	(326)	413
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	(1,641)	4,635	16,237
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	38,319	33,684	17,447
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
	36,678	38,319	33,684

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information**

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Company Limited, or First Pacific, through its Philippine and other affiliates, collectively the First Pacific Group, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or NTT DoCoMo, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT's outstanding common stock as at December 31, 2010. NTT Communications and NTT DoCoMo are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. First Pacific Group had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2010.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depository, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depository for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol PHI. There were approximately 53 million ADSs outstanding as at December 31, 2010.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

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

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were approved and authorized for issuance by the Board of Directors on March 29, 2011, as reviewed and recommended for approval by the Audit Committee.

**Table of Contents****2. Summary of Significant Accounting Policies****Basis of Preparation**

Our consolidated financial statements have been prepared under the historical cost basis except for derivative financial instruments, available-for-sale financial assets and investment properties that have been measured at fair value.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million except when otherwise indicated.

**Basis of Consolidation**

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the PLDT Group) as at December 31, 2010 and 2009:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2010 Percentage of Ownership		2009	
			Direct	Indirect	Direct	Indirect
<b>Wireless</b>						
Smart:	Philippines	Cellular mobile services	<b>100.0</b>		100.0	
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution		<b>100.0</b>		100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		<b>100.0</b>		100.0
I-Contacts Corporation, or I-Contacts	Philippines	Call center services		<b>100.0</b>		100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		<b>100.0</b>		100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		<b>100.0</b>		100.0
Smarthub, Inc., or SHI	Philippines	Software development and sale of maintenance and support services		<b>100.0</b>		100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		<b>100.0</b>		100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		<b>100.0</b>		100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms		<b>100.0</b>		100.0
Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		<b>100.0</b>		100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company		<b>100.0</b>		100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company		<b>100.0</b>		100.0
Connectivity Unlimited Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services		<b>100.0</b>		100.0

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider	<b>100.0</b>		100.0
PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Subsidiaries, or PCEV Group	Philippines	Investment company	<b>99.5</b>		99.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company	<b>100.0</b>		100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	<b>100.0</b>		100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	<b>85.0</b>		85.0
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector	<b>51.0</b>		51.0
Telesat, Inc., or Telesat*	Philippines	Satellite communications services	<b>100.0</b>		100.0
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	<b>88.5</b>	<b>11.5</b>	88.5 11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite*	Philippines	Satellite communications services	<b>67.0</b>		67.0
<b>Fixed Line</b>					
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	<b>100.0</b>		100.0
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	<b>100.0</b>		100.0
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	Islands	Telecommunications services	<b>100.0</b>		100.0
Smart-NTT Multimedia, Inc., or SNMI*	Philippines	Data and network services	<b>100.0</b>		100.0
PLDT-Philcom, Inc. (formerly known as Philcom Corporation), or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	<b>100.0</b>		100.0
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	<b>97.8</b>		97.8

Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services, or VAS	<b>75.0</b>	75.0
<b>Information and Communications Technology, or ICT</b>				
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and IT-related services	<b>100.0</b>	100.0
SPI Technologies, Inc., or SPI, and Subsidiaries, or SPI Group	Philippines	Knowledge processing solutions	<b>100.0</b>	100.0

**Table of Contents**

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2010		2009	
			Direct	Indirect	Direct	Indirect
SPi CRM Inc., or SPi CRM (formerly ePLDT Ventus, Inc.)**	Philippines	Customer relationship management		<b>100.0</b>		100.0
Parlance Systems, Inc., or Parlance**	Philippines	Customer relationship management				100.0
Vocativ Systems, Inc., or Vocativ**	Philippines	Customer relationship management				100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet services		<b>99.6</b>		99.6
BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or BayanTrade Group	Philippines	Internet-based purchasing, IT consulting and professional services		<b>93.5</b>		93.5
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet services		<b>75.0</b>		75.0
Level Up!, Inc., or Level Up!	Philippines	Publisher of online games		<b>57.5</b>		60.0
netGames, Inc., or netGames	Philippines	Customer relationship management		<b>57.5</b>		60.0

\* *Ceased commercial operations*

\*\* *On April 8, 2010, SPi CRM, Parlance and Vocativ were merged, with SPi CRM as the surviving entity.*

***Basis of Consolidation from January 1, 2009***

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

***Basis of Consolidation prior to January 1, 2009***

In comparison to the above mentioned policies which are applied on a prospective basis, the following differences applied: (a) acquisition of non-controlling interests was accounted for using the parent entity extension method, whereby, the difference between the consideration and the net book value of the proportionate share in the net assets acquired is recognized as goodwill; (b) the non-controlling interest share in the losses incurred by the PLDT Group until the non-controlling equity interest in the subsidiary was reduced to nil and any further excess losses were

attributable to the parent, unless the non-controlling interest had a binding obligation to cover these excess losses; and (c) upon loss of control, the PLDT Group accounted for the investment retained at its proportionate share of net asset value at the date the control was lost.

Non-controlling interests represent the equity interests in Philcom subsidiaries namely, Metro Kidapawan Telephone Corp., or MKTC, and Datelco Global Communications, Inc., or DGCI; equity interest in BOW, PCEV, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, netGames, Chikka, BayanTrade and Infocom not held directly by PLDT or indirectly through one of our subsidiaries.

**PCEV s Share Buyback Program**

PCEV s Board of Directors approved three share buyback programs during its meetings on November 3, 2008, March 2, 2009 and August 3, 2009. For all three programs, the buyback was done through the trading facilities of the PSE via open market purchases, block trades or other modes, subject to compliance with applicable laws, rules and regulations. Number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3,



**Table of Contents**

2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. The program approved on August 3, 2009 is still ongoing and will continue until the number of shares earmarked for the program has been fully repurchased or until such time as PCEV's Board of Directors determines otherwise. The most recent share buyback program was undertaken to accommodate minority shareholders who may not have had the opportunity to participate in the tender offer of Smart due to various constraints. The maximum price under this program is Php8.50 per share. As at December 31, 2010, approximately 3.6 million shares at a cost of Php29.8 million have been repurchased under the third buyback program.

As at December 31, 2010 and 2009, cumulative shares repurchased under the share buyback programs totaled approximately 86.6 million and 85.8 million at an aggregate cost of Php621 million and Php614 million, respectively, which reduced the amount of non-controlling interest by the same amount.

**Corporate Merger of Vocativ, Parlance and SPi CRM**

On June 26, 2009, ePLDT's Board of Directors approved the plan for merger of its wholly-owned subsidiaries, Vocativ and Parlance, as the absorbed entities, and SPi CRM, as the surviving entity. The Articles and Plan of Merger was approved by the Philippine Securities and Exchange Commission, or Philippine SEC, on April 8, 2010. The merger did not have any impact on the consolidated financial statements of PLDT Group.

**Reorganization of ePLDT**

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 (ii) the business process outsourcing, or 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. The BPO business group will be eventually transferred to PLDT, subject to the finalization of the terms and conditions thereof and the execution of relevant agreements. The reorganization is not expected to have an impact on PLDT's consolidated financial statements. See *Note 4 Operating Segment Information*.

**Statement of Compliance**

Our consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

**Changes in Accounting Policies and Disclosures**

Our accounting policies are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to existing IFRSs and new interpretation as at January 1, 2010:

*Amendment to IFRS 2, Share-based Payment – Group Cash-settled Share-based Payment Transactions;*

*Improvements to IFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations;*

*Amendment to International Accounting Standard, or IAS, 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items;*

*IFRIC 17, Distributions of Non-cash Assets to Owners; and*

*Improvements to IFRSs (2009)*

The changes introduced by such amendments, improvements and new interpretation are as follows:

***Amendment to IFRS 2, Share-based Payment.*** The amendments clarify how an individual subsidiary in a group should account for the share-based payment arrangements in its own financial statements. It further states that an entity that receives goods or services in a share-based payment arrangement must account for these goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled. The adoption of this amendment did not have any impact on our financial position or performance.

***Improvements to IFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations.*** When a subsidiary is held-for-sale, all of its assets and liabilities will be classified as held-for-sale under *IFRS 5*, even when the entity

retains a non-controlling interest in the subsidiary after the sale. The amendment was applied

**Table of Contents**

prospectively and has no impact on either our financial position or performance.

**Amendment to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items.**

Amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. We have concluded that the amendment had no impact on our financial position or performance as we have not entered into such hedges.

**IFRIC 17, Distributions of Non-cash Assets to Owners.** This interpretation provides guidance on non-reciprocal distribution of assets by an entity to its owners acting in their capacity as owners, including distributions of non-cash assets and those giving the shareholders a choice of receiving non-cash assets or cash, provided that: (a) all owners of the same class of equity instruments are treated equally; and (b) the non-cash assets distributed are not ultimately controlled by the same party or parties both before and after the distribution, and as such, excluding transactions under common control. The interpretation had no effect on either our financial position or performance.

**Improvements to IFRSs**

Improvements to IFRSs is an omnibus of amendments to standards that deals primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which were effective beginning January 1, 2010. The adoption of the following amendments resulted in changes to our accounting policies but had no impact on our financial position or performance.

**IFRS 2, Share-based Payment.** The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2, even though they are out of scope of Revised IFRS 3, *Business Combinations*.

**IFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations.** The amendment clarifies that the disclosures required in respect of noncurrent assets or disposal groups classified as held-for-sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs apply only if specifically required for such noncurrent assets or discontinued operations.

It also clarifies that the general requirements of IAS 1, *Presentation of Financial Statements*, still apply, particularly paragraphs 15 (to achieve fair presentation) and 125 (sources of estimation and uncertainty).

**IFRS 8, Operating Segments.** The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the chief operating decision maker reviews segment revenues, net income (loss) for the year, assets, liabilities, and other segment information of our reportable operating segments, we have continued to disclose this information in *Note 4 – Operating Segment Information*.

**IAS 1, Presentation of Financial Statements.** The amendment terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

**IAS 7, Statement of Cash Flows.** The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities. This amendment will impact, among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

**IAS 17, Leases.** The amendment removes the specific guidance on classifying land as lease so that only the general guidance remains.

**IAS 36, Impairment of Assets.** The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in *IFRS 8*, before aggregation for reporting purposes. The amendment had no impact on us as the annual impairment test is performed before aggregation.

**Table of Contents**

**IAS 38, Intangible Assets.** The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset, provided that the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

**IAS 39, Financial Instruments: Recognition and Measurement.** The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The amendment also clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell and acquiree at a future date, applies only to forward binding contracts, and not derivative contracts where some actions by either party have yet to be taken. It also clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the year that the hedged forecast cash flows affected profit or loss.

**IFRIC 9, Reassessment of Embedded Derivatives.** The improvement clarifies that it does not apply to possible reassessment, at the date of acquisition, of embedded derivatives in contracts acquired in a combination between entities or businesses under common control or in the formation of a joint venture.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation.** The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

**Significant Accounting Policies**

**Business Combinations and Goodwill**

*Business combinations from January 1, 2009*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to

**Table of Contents**

each of our cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations prior to January 1, 2009*

In comparison to the above policies, the following differences applied:

Business combinations were accounted for using purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combination achieved in stages was accounted for as separate steps. Additional acquisitions do not affect previously recognized goodwill.

When we acquire a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition date unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration is recognized if, and only if, we have present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration are charged to goodwill except for accretion of interest which is recognized in profit or loss.

*Investments in Associates*

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statement of comprehensive income and changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profit or losses of our associates is shown on the face of our consolidated income statement. This is the profit or losses attributable to equity holders of the associate and therefore is profit or losses after tax and net of non-controlling interest in the subsidiaries of the associates.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. Where necessary, adjustments are made to bring such accounting policies in line with those of PLDT Group.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence, and the fair value of the remaining investment and proceeds from disposal, is recognized in profit or loss.

**Table of Contents**

***Investments in Joint Ventures***

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of PLDT Group.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between PLDT and our jointly controlled entity. The joint venture is carried at equity method until the date on which we cease to have joint control over the jointly controlled entity.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control, and the fair value of the remaining investment and proceeds from disposal, is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

***Foreign Currency Transactions and Translations***

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in the PLDT Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SCH, SGP, 3rd Brand, BOW, SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, certain subsidiaries of Chikka, and certain subsidiaries of BayanTrade) is the Philippine peso.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and Singapore dollar for SCH, SGP, 3rd Brand, BOW, and certain subsidiaries of BayanTrade. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries are recognized in our consolidated income statement.

Foreign exchange gains or losses of PLDT and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the year such exchange gains or losses are realized.

**Table of Contents*****Financial Assets******Initial recognition***

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Our financial assets include cash and cash equivalents, short-term investments, trade and other receivables, quoted and unquoted equity and debt securities, advances and refundable deposits, and derivative financial assets.

***Subsequent measurement***

The subsequent measurement of financial assets depends on the classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as at fair value through profit or loss if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under Gains (losses) on derivative financial instruments net for derivative instruments and Other income for non-derivative financial assets. Interest earned and dividends received from financial assets at fair value through profit or loss are recognized in our consolidated income statement under Interest income and Other income, respectively. Financial assets may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain one or more embedded derivatives that would need to be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in Interest income in our consolidated income



**Table of Contents**

statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when we have the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in *Interest income* in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement. Interest earned on holding available-for-sale debt securities are included under *Interest income* using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under *Other income* when the right of the payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months of the end of the reporting period.

**Financial Liabilities***Initial recognition*

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of directly attributable transaction costs.

Our financial liabilities include accounts payable, accrued expenses and other current liabilities, interest-bearing financial liabilities, customers' deposits, derivative financial liabilities, dividends payable, and accrual for long-term capital expenditures included under *Deferred credits and other noncurrent liabilities* account.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss if they are acquired for the purpose of repurchasing in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under *Gains (losses) on derivative financial instruments net for derivative instruments* and *Other income* for non-derivative financial liabilities.

**Table of Contents**

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain one or more embedded derivatives that would need to be separately recorded.

*Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included under Financing costs net in our consolidated income statement.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

*Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

*Amortized cost of financial instruments*

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

*Day 1 difference*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a Day 1 difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the Day 1 difference amount.

*Impairment of Financial Assets*

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with

**Table of Contents**

defaults.

*Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

*Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income reserve account.

In the case of debt instruments classified as available-for-sale financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

**Table of Contents*****Derecognition of Financial Assets and Liabilities****Financial assets*

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

***Derivative Financial Instruments and Hedging****Initial recognition and subsequent measurement*

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps, to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the Gains (losses) on derivative financial instruments net in our consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined using applicable valuation techniques. See Note 28 *Financial Assets and Liabilities*. For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is neither attributable to a particular risk associated with a recognized financial asset or liability or a highly

**Table of Contents**

probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized in our statement of comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement.

Amounts taken to comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

*Hedges of a net investment in a foreign operation*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income

**Table of Contents**

while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

*Current versus noncurrent classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

**Property, Plant and Equipment**

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Cost includes the cost of replacing part of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in our consolidated income statement as incurred. The present value of the expected cost of the decommissioning of the asset after use is included in the cost of the respective assets if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in

*Note 9 Property, Plant and Equipment.*

The asset's residual value, estimated useful life and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for service.

**Borrowing Costs**

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing

**Table of Contents**

costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

***Asset Retirement Obligations***

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense.

***Investment Properties***

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which has been determined based on the latest valuations performed by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the year in which they arise. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the carrying amount of the occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income.

No assets held under operating lease have been classified as investment properties.

***Intangible Assets***

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite useful life.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method of accounting and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.





**Table of Contents**

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the year in which the expenditures are incurred.

**Research and Development Costs**

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when we can demonstrate: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) our intention to complete and our ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

**Inventories and Supplies**

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost incurred in bringing each items of inventories and supplies to its present location are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business less the estimated cost to sell or determining the prevailing replacement costs.

**Impairment of Non-Financial Assets***Property, plant and equipment*

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

**Table of Contents**

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill*

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of the cash-generating unit, or group of cash-generating units, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to cash generating units, or group of cash generating units, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

*Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

*Investments in associates and joint ventures*

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

***Investment in Debt Securities***

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as Interest income in our consolidated income statement.

***Cash and Cash Equivalents***

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

***Short-term Investments***

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

***Trade and Other Receivables***

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the EIR method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original EIR. Cash flows relating to short-term receivables are not discounted if the

**Table of Contents**

effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in our consolidated income statement.

When a trade and other receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in our consolidated income statement.

***Revenue Recognition***

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, and overseas communication tax where applicable. We provide wireless communication, fixed line communication, and ICT services to our subscribers and customers. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service has occurred. In certain circumstances, revenue is split into separately identifiable components based on their relative fair value to reflect the substance of the transactions. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. Under certain arrangements where the above criteria are met, but there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service, and such amount is determined to be recoverable. We do not provide our customers with the right to a refund. The following specific recognition criteria must also be met before revenue is recognized:

*Service Revenues**Subscriptions*

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular services. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro-rata basis.

*Air time, traffic and VAS*

Prepaid service revenues collected in advance are deferred and recognized as revenue based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit and network usage are recognized in the year the traffic occurs. Revenues related to local, long distance, network-to-network and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for calls terminating in their territories. Revenues related to, products and VAS are recognized upon delivery of the product or service, net of content providers share in revenue.

*Knowledge processing solutions and customer relationship management*

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue are recorded as advances from customers and presented as a liability in our consolidated statement of financial position. If the fee is not measurable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

*Incentives*

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction to revenues. Product-based incentives provided to dealers and customers as part of a transaction are accounted for

**Table of Contents**

as multiple element arrangements and recognized when earned.

Our wireless segment operates two loyalty points programmes, one for *Smart Money* cardholders and another for subscribers of *Smart Gold*, *Smart Buddy* and *SmartBro*. The loyalty programme for *Smart Money* allows cardholders, upon enrollment, to accumulate points when they use their card for purchases, *Smart Load* payments, and reloads for Smart's prepaid cards, *SmartBro* prepaid Airtime and *Smart Money Cash Load*. The points for the programme can then be redeemed for airtime or load wallet. On the other hand, the loyalty programme for Smart's cellular and broadband subscribers allows postpaid subscribers to accumulate points for billed transactions and prepaid subscribers for reloads or top-ups and VAS, and international direct dialing usage and tenure in the network for both postpaid and prepaid subscribers. The points for the loyalty programme for the subscribers can then be redeemed, upon registration, for bill rebates, discounts on cellular phonekit purchases, on-network short messaging services or internet surf time. Redemption for both programmes are subject to a minimum number of points being required. Consideration received is allocated between the services sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued are deferred and recognized as revenue when the points are redeemed.

*Non-service Revenues**Handset and equipment sales*

Sale of cellular handsets and communication equipment are recognized upon delivery to the customer.

*Interest income*

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR. The majority of interest income represents interest earned from cash and cash equivalents, short-term investments and investment in debt securities.

**Expenses**

Expenses are recognized as incurred.

**Provisions**

We recognize provision when we have present obligation, legal or constructive, as a result of past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

**Retirement Benefits***Defined benefit pension plans*

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments, changes in actuarial assumptions and the effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

**Table of Contents**

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds), net of past service cost and actuarial gains and losses not yet recognized, and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by long-term employee benefit fund and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service cost and actuarial gains and losses not yet recognized, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

*Defined contribution plans*

Smart and I-Contacts record expenses for their contribution to the defined contribution plans when the employee renders service to Smart and I-Contacts, respectively, essentially coinciding with their cash contributions to the plans.

**Other Long-term Employee Benefits**

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, are determined using the projected unit credit method. Employee benefit costs include current service cost, interest cost, actuarial gains and losses and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

**Share-based Payment Transactions***Cash-settled transactions*

Our 2007 to 2009 LTIP grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from our eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement for the year.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

*As a Lessor.* Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

**Table of Contents**

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

*As a Lessee.* Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

***Income Taxes****Current income tax*

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

*Deferred income tax*

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

**Table of Contents**

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

***Contingencies***

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

***Events After the End of the Reporting Period***

Post quarter-end events that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

***Equity***

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value. Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprise items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other IFRSs.

Non-controlling interests represent the equity interests in MKTC, DGCI, BOW, PCEV, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, netGames, Chikka, BayanTrade and Infocom not held directly by PLDT or indirectly through one of our subsidiaries.

**New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2010**

We will adopt the following revised standards and interpretations enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these revised standards and amendments to IFRS to have a significant impact on our consolidated financial statements.

**Effective 2011**

***Revised IAS 24, Related Party Disclosures.*** The standard has been revised to simplify the identification of related party relationship and re-balance the extent of disclosures of transactions between related parties based on the costs to preparers and the benefits to users in having this information available in consolidated financial statements. Also, the revised standard provides a partial exemption from the disclosure requirements for government-related entities. This revised standard is applied retrospectively and is applicable for annual periods beginning on or after January 1, 2011.

***Amendment to IAS 32, Financial Instruments: Presentation Classification of Rights Issues.*** The definition of a financial liability in the standard has been amended to classify right issues (and certain options or warrants)

**Table of Contents**

as equity instruments if: (a) the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments; and (b) the instruments are used to acquire fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment is applied retrospectively and is applicable for annual periods beginning on or after February 1, 2010.

**Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement.** The interpretation has been amended to permit an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation. This amendment is applied retrospectively and is applicable for annual periods beginning on or after January 1, 2011.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instrument.** The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. This interpretation is applied retrospectively and is applicable for annual periods beginning on or after July 1, 2010 from the beginning of the earliest comparative period presented.

**Improvements to IFRSs**

Improvements to IFRSs were issued by the IASB in May 2010. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011.

**IFRS 3, Business Combinations.** The improvements include: (a) clarification that the amendments to *IFRS 7, Financial Instruments: Disclosures*, *IAS 32, Financial Instruments: Presentation*, and *IAS 39, Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of *IFRS 3* (as revised in 2008); (b) guidance that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS; and (c) clarification that the application guidance in *IFRS 3* applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. These improvements are applied prospectively.

**IFRS 7, Financial Instruments.** The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. This amendment is applied retrospectively.

**IAS 1, Presentation of Financial Statements.** The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment is applied retrospectively.

**IAS 27, Consolidated and Separate Financial Statements.** The improvement clarifies that the consequential amendments from *IAS 27* made to *IAS 21, The Effect of Changes in Foreign Exchange Rates*, *IAS 28, Investments in Associates*, and *IAS 31, Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when *IAS 27* is applied earlier. This improvement is applied retrospectively.



**IAS 34, Interim Financial Reporting.** The amendment provides guidance on how to apply disclosure principles in *IAS 34* and add disclosure requirements around: (a) the circumstances likely to affect fair

---

**Table of Contents**

values of financial instruments and their classification; (b) transfers of financial instruments between different levels of the fair value hierarchy; (c) changes in classification of financial assets; and (d) changes in contingent liabilities and assets. This amendment is applied retrospectively.

**IFRIC 13, Customer Loyalty Programmes.** The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes.

**Effective 2012**

**Amendments to IFRS 7, Disclosures – Transfers of Financial Assets.** The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are applied prospectively and are applicable for annual periods beginning on or after July 1, 2011.

**Amendment to IAS 12, Income Taxes – Deferred Income Tax: Recovery of Underlying Assets.** The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale. This amendment is effective for annual periods beginning on or after January 1, 2012.

**Effective 2013**

**IFRS 9, Financial Instruments: Classification and Measurement.** IFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of our financial assets. We will quantify the effect to our consolidated financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

**3. Management's Use of Judgments, Estimates and Assumptions**

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

**Judgments**

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

**Determination of functional currency**

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso except for SMHC, SMI, TSI, BOW, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka, which is the U.S. dollar; and Singapore dollar for SCH, SGP, 3rd Brand, and certain subsidiaries of BayanTrade.

**Table of Contents***Leases*

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *IAS 17* which requires us to make judgments and estimates of transfer of risk and rewards of ownership of the leased properties. Total lease expense arising from operating leases amounted to Php3,970 million, Php4,055 million and Php3,656 million for the years ended

December 31, 2010, 2009 and 2008, respectively. Total finance lease obligations amounted to Php43 million and Php64 million as at December 31, 2010 and 2009, respectively. See *Note 20 Interest-bearing Financial Liabilities*, *Note 26 Contractual Obligations and Commercial Commitments* and *Note 28 Financial Assets and Liabilities*.

*Significant influence in Manila Electric Company, or Meralco, on which PCEV has less than 20% ownership*

Under *IAS 28*, significant influence must be present and currently exercisable over an investee to account for any interest in that investee as investment in an associate and carried at equity method of accounting. If an investor holds, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

On March 30, 2010, following the transfer of PCEV's Meralco shares to Beacon Electric Asset Holdings, Inc., or Beacon, PCEV's direct ownership in Meralco was reduced to approximately 6% from approximately 20%. Beacon is a jointly controlled entity of PCEV and Metro Pacific Investments Corporation, or MPIC, for the purpose of consolidating the ownership interest of PCEV and MPIC in Meralco. The decrease in PCEV's direct ownership in Meralco, however, did not result in a change in PCEV's representation on the Meralco Board of Directors. Prior to the transfer of approximately 14% interest in Meralco to Beacon, PCEV had three out of the 11 Board of Directors seats in Meralco. Based on the Omnibus Agreement, or OA, among PCEV, MPIC and Beacon, both PCEV and MPIC agreed that an equal number of Meralco nominee directors shall be chosen from each list of nominees provided by PCEV and MPIC. If the number of Meralco Nominee Directors for Beacon is an odd number, the remaining one Meralco Nominee Director shall be chosen alternatively first from the list of nominees provided by MPIC and then from the list provided by PCEV. The total Beacon ownership in Meralco entitles it to nominate three Board of Directors seats, two of whom are the Chairman of the Board and the President of PCEV. For Meralco Board of Directors, committees and officers, these are jointly nominated from a list of nominees mutually agreed to by MPIC and PCEV and affirmative votes for the appointment of individuals to different Board of Directors committees and officers that Beacon are also provided for under the current MPIC-PCEV shareholders agreement. The Board of Directors members, committees and Meralco officers, which are the operating decision makers of Meralco, are represented by MPIC and PCEV through nominations. On this basis, PCEV has retained significant influence over Meralco, despite having less than 20% ownership interest, by virtue of PCEV's 6% direct ownership interest together with its indirect interest of about 17.5% through PCEV's investment in Beacon. See

*Note 10 Investments in Associates and Joint Ventures.*

***Estimates and Assumptions***

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed as follows:

*Asset impairment*

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Table of Contents**

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance. The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under IFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) amounted to Php2,438 million, Php5,061 million and Php4,180 million for the years ended December 31, 2010, 2009 and 2008, respectively. See *Note 4 Operating Segment Information*, *Note 5 Income and Expenses* and *Note 10 Investments in Associates and Joint Ventures*.

The carrying values of our property, plant and equipment, investments in associates and joint ventures, goodwill and intangible assets, trade and other receivables, inventories and supplies and prepayments are separately disclosed in *Notes 9, 10, 14, 16, 17 and 18*, respectively.

*Estimating useful lives of property, plant and equipment*

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed at least at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded expenses and decrease our noncurrent assets.

The total depreciation and amortization of property, plant and equipment amounted to Php26,277 million, Php25,607 million and Php24,709 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php163,184 million and Php161,256 million as at December 31, 2010 and 2009, respectively. See *Note 4 Operating Segment Information* and *Note 9 Property, Plant and Equipment*.

*Determining the fair value of investment properties*

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is annually performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php6 million, Php352 million and Php59 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of our investment properties amounted to Php1,560 million and Php1,210 million as at December 31, 2010 and 2009, respectively. See *Note 12 Investment Properties*.

**Table of Contents***Goodwill and intangible assets*

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method starting January 1, 2009 and purchase method for prior year acquisitions, which both require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Intangible assets acquired from business combination with finite lives are amortized over the useful economic life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets amounted to Php388 million, Php368 million and Php377 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of goodwill and intangible assets amounted to Php11,485 million and Php13,024 million as at December 31, 2010 and 2009, respectively. See *Note 13 Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 Goodwill and Intangible Assets*.

*Recognition of deferred income tax assets and liabilities*

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart's and Wolfpac's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php1,477 million and Php1,236 million as at December 31, 2010 and 2009, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php2,805 million and Php3,296 million as at December 31, 2010 and 2009, respectively. Total consolidated provision for deferred income tax amounted to Php1,198 million, Php656 million and Php2,715 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total consolidated net deferred income tax assets amounted to Php6,110 million and Php7,721 million as at December 31, 2010 and 2009, respectively, while total consolidated net deferred income tax liabilities amounted to Php1,099 million and Php1,321 million as at December 31, 2010 and 2009, respectively. See *Note 4 Operating Segment Information* and *Note 7 Income Taxes*.

*Estimating allowance for doubtful accounts*

If we assessed that there is an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the



**Table of Contents**

amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total asset impairment provision for trade and other receivables recognized in our consolidated income statements amounted to Php834 million, Php2,335 million and Php1,079 million for the years ended December 31, 2010, 2009 and 2008, respectively. Trade and other receivables, net of asset impairment, amounted to Php16,428 million and Php14,729 million as at December 31, 2010 and 2009, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses, Note 16 Trade and Other Receivables* and *Note 28 Financial Assets and Liabilities*.

*Estimating net realizable value of inventories and supplies*

We write down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php108 million, Php389 million and Php242 million for the years ended December 31, 2010, 2009 and 2008, respectively. The carrying values of inventories and supplies amounted to Php2,219 million and Php2,165 million as at December 31, 2010 and 2009, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses* and *Note 17 Inventories and Supplies*.

*Share-based payment transactions*

Our 2007 to 2009 LTIP grants SARs to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement. The estimates and assumptions are described in *Note 25 Share-based Payments and Employee Benefits* and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million for the years ended December 31, 2009 and 2008, respectively. The outstanding 2007 to 2009 LTIP liability of Php4,582 million as at December 31, 2009 was paid in full in April 2010. See *Note 5 Income and Expenses, Note 23 Accrued Expenses and Other Current Liabilities* and *Note 25 Share-based Payments and Employee Benefits*.

*Estimation of pension benefit costs and other employee benefits*

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, expected rates of return on plan assets, rates of compensation increases and mortality rates. See *Note 25 Share-based Payments and Employee Benefits*. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the





**Table of Contents**

underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed at year-end.

Total consolidated pension benefit costs amounted to Php236 million, Php1,306 million and Php725 million for the years ended December 31, 2010, 2009 and 2008, respectively. Unrecognized net actuarial gains amounted to Php479 million as at December 31, 2010 and unrecognized net actuarial losses amounted to Php2,474 million as at December 31, 2009. The prepaid benefit costs amounted to Php5,333 million and Php5,414 million as at December 31, 2010 and 2009, respectively. The accrued benefit costs amounted to Php415 million and Php359 million as at December 31, 2010 and 2009, respectively. See *Note 5 Income and Expenses, Note 18 Prepayments* and

*Note 25 Share-based Payments and Employee Benefits.*

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the Executive Compensation Committee, or ECC, and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for other employee benefits. All assumptions are reviewed on a monthly basis. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at and for the year ended December 31, 2010. See *Note 5 Income and Expenses* and *Note 25 Shared-based Payments and Employee Benefits.*

*Provision for asset retirement obligations*

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,344 million and Php1,204 million as at December 31, 2010 and 2009, respectively. See *Note 21 Deferred Credits and Other Noncurrent Liabilities.*

*Provision for legal contingencies and tax assessments*

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims has been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 27 Provisions and Contingencies.*

*Revenue recognition*

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.



**Table of Contents**

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn-rate analysis.

*Determination of fair values of financial assets and liabilities*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities amounted to Php55,538 million and Php167,396 million as at December 31, 2010, respectively, while the total fair values of financial assets and liabilities amounted to Php58,225 million and Php165,063 million as at December 31, 2009, respectively. See *Note 28 Financial Assets and Liabilities*.

**4. Operating Segment Information**

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and have three reportable operating segments as follows:

**Wireless** wireless telecommunications services provided through our cellular service providers namely, Smart, PCEV, (on August 17, 2009, Smart acquired the cellular business of PCEV, which is formerly known as Pilipino Telephone Corporation) and CURE; SBI, BOW, Airborne Access Corporation and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;

**Fixed Line** fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries ClarkTel, SubicTel, Philcom, Maratel, SBI, PDSI, BCC and PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

**ICT** information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT and BayanTrade Group; knowledge processing solutions provided by the SPi Group; customer relationship management provided by SPi CRM (on April 8, 2010, SPi CRM, Parlance and Vocativ were merged wherein SPi CRM became the surviving entity); internet and online gaming services provided by Infocom, Digital Paradise, netGames and Level Up!; and

e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 Investments in Associates and Joint Ventures*.

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 (ii) the BPO business group, which covers customer relationship

**Table of Contents**

management or call center operations under SPi CRM; and content solutions, medical billing and coding and medical transcription services under SPi. The BPO business group will be eventually transferred to PLDT, subject to the finalization of the terms and conditions thereof and the execution of relevant agreements.

Although our Board of Directors already approved the reorganization of ePLDT into two business groups – ICT business group and BPO business group, the actual reorganization has not yet been consummated as at March 29, 2011 and therefore, as at December 31, 2010, the chief operating decision maker continues to view our business activities using the three business units: Wireless, Fixed Line and ICT. The reorganization is not expected to have an impact on PLDT's consolidated financial statements.

The chief operating decision maker and management monitor the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or adjusted EBITDA; adjusted EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income in the consolidated financial statements.

Adjusted EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, provision for (benefit from) income tax and other income.

Adjusted EBITDA margin is measured as adjusted EBITDA divided by service revenues.

Core income for the year is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are determined on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Wireless	Fixed Line	Inter-segment ICT Transactions	Consolidated
	(in million pesos)			
<b>As at and for the year ended December 31, 2010</b>				
<b>Revenues</b>				
External customer:	94,343	40,167	9,949	144,459
Service revenues (Note 3)	92,986	39,825	9,431	142,242
Non-service revenues (Notes 3 and 5)	1,357	342	518	2,217
Inter-segment transactions:	844	8,784	1,409	(11,037)
Service revenues (Note 3)	844	8,784	1,246	(10,874)
Non-service revenues (Notes 3 and 5)			163	(163)
Total revenues	95,187	48,951	11,358	(11,037) 144,459
<b>Results</b>				
Depreciation and amortization (Notes 3 and 9)	13,243	12,292	742	26,277
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17, 18 and 28)	824	291	1,323	2,438

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Financing costs net (Notes 5, 9, 20 and 28)	2,683	3,856	176	(17)	6,698
Equity share in net earnings of associates and joint ventures (Note 10)	1,221		187		1,408
Interest income (Note 5)	698	484	35	(17)	1,200
Provision for (benefit from) income tax (Notes 3 and 7)	11,414	2,050	(38)		13,426
Net income (loss) for the year / Segment profit (loss) for the year	35,376	5,210	(327)		40,259
Adjusted EBITDA for the year	58,945	22,668	1,723	381	83,717
Adjusted EBITDA margin for the year	63%	47%	16%		59%
Core income for the year	35,418	5,580	1,030		42,028

202

---

**Table of Contents**

	<b>Wireless</b>	<b>Fixed Line</b>	<b>Inter-segment ICTransactions</b>	<b>Consolidated</b>	
	(in million pesos)				
<b>Assets and liabilities</b>					
Operating assets	111,852	197,318	15,095	(75,763)	248,502
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	22,275		928		23,203
Deferred income tax assets net (Notes 3, 7 and 28)	41	5,908	161		6,110
<b>Consolidated total assets</b>	<b>134,168</b>	<b>203,226</b>	<b>16,184</b>	<b>(75,763)</b>	<b>277,815</b>
<b>Operating liabilities</b>	<b>96,895</b>	<b>104,944</b>	<b>4,435</b>	<b>(26,943)</b>	<b>179,331</b>
Deferred income tax liabilities net (Notes 3, 7 and 28)	596	22	178	303	1,099
<b>Consolidated total liabilities</b>	<b>97,491</b>	<b>104,966</b>	<b>4,613</b>	<b>(26,640)</b>	<b>180,430</b>
<b>Other segment information</b>					
Capital expenditures (including capitalized interest)	16,959	11,057	750		28,766
<b>As at and for the year ended December 31, 2009</b>					
<b>Revenues</b>					
External customer:	96,560	41,318	10,115		147,993
Service revenues (Note 3)	94,865	41,085	9,617		145,567
Non-service revenues (Notes 3 and 5)	1,695	233	498		2,426
Inter-segment transactions:	964	10,055	1,434	(12,453)	
Service revenues (Note 3)	964	10,055	1,234	(12,253)	
Non-service revenues (Notes 3 and 5)			200	(200)	
<b>Total revenues</b>	<b>97,524</b>	<b>51,373</b>	<b>11,549</b>	<b>(12,453)</b>	<b>147,993</b>
<b>Results</b>					
Depreciation and amortization (Notes 3 and 9)	13,237	11,619	751		25,607
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17, 18 and 28)	2,026	2,901	134		5,061
Financing costs net (Notes 5, 9, 20 and 28)	2,619	3,796	171	(30)	6,556
Interest income (Note 5)	1,139	402	28	(30)	1,539
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(68)	(98)	168		2
Provision for (benefit from) income tax (Notes 3 and 7)	12,514	2,258	(28)		14,744
<b>Net income for the year / Segment profit for the year</b>	<b>33,727</b>	<b>5,864</b>	<b>504</b>		<b>40,095</b>
Adjusted EBITDA for the year	59,411	25,215	1,330	238	86,194
Adjusted EBITDA margin for the year	62%	49%	12%		59%
<b>Core income for the year</b>	<b>33,026</b>	<b>7,502</b>	<b>613</b>	<b>(3)</b>	<b>41,138</b>

**Assets and liabilities**

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Operating assets	107,880	206,385	16,297	(80,368)	250,194
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	21,440		793		22,233
Deferred income tax assets net (Notes 3, 7 and 28)	187	7,346	188		7,721
<b>Total assets</b>	<b>129,507</b>	<b>213,731</b>	<b>17,278</b>	<b>(80,368)</b>	<b>280,148</b>
Operating liabilities	96,194	111,294	4,574	(32,360)	179,702
Deferred income tax liabilities net (Notes 3, 7 and 28)	640	21	328	332	1,321
<b>Total liabilities</b>	<b>96,834</b>	<b>111,315</b>	<b>4,902</b>	<b>(32,028)</b>	<b>181,023</b>
<b>Other segment information</b>					
Capital expenditures (including capitalized interest)	16,281	11,059	729		28,069
<b>As at and for the year ended December 31, 2008</b>					
<b>Revenues</b>					
External customer:	95,365	40,736	9,736		145,837
Service revenues	93,106	40,316	9,451		142,873
Non-service revenues (Note 5)	2,259	420	285		2,964
Inter-segment transactions:	487	8,950	1,247	(10,684)	
Service revenues	487	8,950	966	(10,403)	
Non-service revenues			281	(281)	
<b>Total revenues</b>	<b>95,852</b>	<b>49,686</b>	<b>10,983</b>	<b>(10,684)</b>	<b>145,837</b>
<b>Results</b>					
Depreciation and amortization (Notes 3 and 9)	11,975	11,901	833		24,709
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17, 18 and 28)	1,006	888	2,286		4,180
Provisions (Notes 3, 26 and 27)	897	1			898
Interest income (Note 5)	1,197	448	22	1	1,668
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(119)	(74)	17		(176)
Financing costs net (Notes 5, 9, 20 and 28)	2,029	3,903	172		6,104

**Table of Contents**

		<b>Inter-segment</b>			
	<b>Wireless</b>	<b>Fixed Line</b>	<b>ICT</b>	<b>Transaction</b>	<b>Consolidated</b>
		(in million pesos)			
Provision for (benefit from) income tax (Notes 3 and 7)	16,124	3,048	(99)		19,073
Net income (loss) for the year / Segment profit (loss) for the year	29,499	7,732	(2,186)	(69)	34,976
Adjusted EBITDA for the year	60,967	25,854	1,056	119	87,996
Adjusted EBITDA margin for the year	65%	52%	10%		62%
Core income for the year	30,250	7,890	138	(64)	38,214
<b>Assets and liabilities</b>					
Operating assets	112,162	189,377	15,963	(75,723)	241,779
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	531		643		1,174
Deferred income tax assets net (Notes 3, 7 and 28)	251	9,131	223		9,605
Total assets	112,944	198,508	16,829	(75,723)	252,558
Operating liabilities	67,656	89,636	4,222	(17,213)	144,301
Deferred income tax liabilities net (Notes 3, 7 and 28)	911		377		1,288
Total liabilities	68,567	89,636	4,599	(17,213)	145,589
<b>Other segment information</b>					
Capital expenditures (including capitalized interest)	16,728	7,651	824		25,203

The following table shows the reconciliation of our consolidated adjusted EBITDA to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	2009	2008
	(in million pesos)		
Consolidated adjusted EBITDA	<b>83,717</b>	86,194	87,996
Amortization of intangible assets (Notes 3 and 14)	<b>(388)</b>	(368)	(377)
Depreciation and amortization (Notes 3 and 9)	<b>(26,277)</b>	(25,607)	(24,709)
Asset impairment:			
Investments in associates and joint ventures (Notes 3, 5 and 10)	<b>(78)</b>		(282)
Property, plant and equipment (Notes 3, 5 and 9)	<b>(120)</b>	(634)	(104)
Goodwill and intangible assets (Notes 3, 5 and 14)	<b>(1,243)</b>	(379)	(2,450)
Prepayments and others (Notes 3, 5 and 18)	<b>(55)</b>	(1,324)	(23)
Consolidated operating profit for the year	<b>55,556</b>	57,882	60,051
Foreign exchange gains (losses) net (Notes 9 and 28)	<b>1,807</b>	909	(6,170)
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	<b>1,408</b>	2	(176)



Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Interest income (Note 5)	<b>1,200</b>	1,539	1,668
Gains (losses) on derivative financial instruments net (Note 28)	<b>(1,741)</b>	(1,006)	3,115
Financing costs net (Notes 5, 9, 20 and 28)	<b>(6,698)</b>	(6,556)	(6,104)
Other income	<b>2,153</b>	2,069	1,665
Consolidated income before income tax	<b>53,685</b>	54,839	54,049
Provision for income tax (Notes 3 and 7)	<b>13,426</b>	14,744	19,073
Consolidated net income for the year	<b>40,259</b>	40,095	34,976

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	2009	2008
		(in million pesos)	
Consolidated core income for the year	<b>42,028</b>	41,138	38,214
Foreign exchange gains (losses) net (Notes 9 and 28)	<b>1,819</b>	908	(6,170)
Core income adjustment on equity share in net earnings of associates and joint ventures	<b>(699)</b>	(517)	
Gains (losses) on derivative financial instruments net, excluding hedge cost (Note 28)	<b>(1,307)</b>	(407)	3,934
Asset impairment on noncurrent assets (Notes 3, 5, 9, 10, 14 and 18)	<b>(1,492)</b>	(1,948)	(2,486)
Net tax effect of aforementioned adjustments	<b>(132)</b>	607	825
Net income for the year attributable to equity holders of PLDT (Notes 6 and 8)	<b>40,217</b>	39,781	34,317
Net income for the year attributable to non-controlling interests	<b>42</b>	314	659
Consolidated net income for the year	<b>40,259</b>	40,095	34,976

**Table of Contents**

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2010, 2009 and 2008:

	<b>2010</b>	2009	2008
	(in million pesos)		
<b>Wireless services</b>			
Service revenues:			
Cellular	<b>85,555</b>	87,829	87,410
Broadband	<b>6,286</b>	5,383	4,327
Satellite and others	<b>1,145</b>	1,653	1,369
	<b>92,986</b>	94,865	93,106
Non-service revenues:			
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	<b>1,357</b>	1,695	2,259
Total wireless revenues	<b>94,343</b>	96,560	95,365
<b>Fixed line services</b>			
Services revenues:			
Local exchange	<b>15,205</b>	15,530	15,794
International long distance	<b>5,217</b>	6,250	7,044
National long distance	<b>4,651</b>	6,239	6,143
Data and other network	<b>14,448</b>	12,585	10,864
Miscellaneous	<b>304</b>	481	471
	<b>39,825</b>	41,085	40,316
Non-service revenues:			
Sale of computers	<b>342</b>	233	420
Total fixed line revenues	<b>40,167</b>	41,318	40,736
<b>ICT services</b>			
Service revenues:			
Knowledge processing solutions	<b>5,289</b>	5,215	5,272
Customer relationship management	<b>2,284</b>	2,676	2,922
Internet and online gaming	<b>1,027</b>	1,079	945
Data center and others	<b>831</b>	647	312
	<b>9,431</b>	9,617	9,451
Non-service revenues:			
Point-product-sales	<b>518</b>	498	285
Total ICT revenues	<b>9,949</b>	10,115	9,736
Total products and services from external customers	<b>144,459</b>	147,993	145,837

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

In each of the years ended December 31, 2010, 2009 and 2008, no revenue transactions with a single external customer accounted for 10% or more of our consolidated revenues from external customers.

**5. Income and Expenses**

*Non-service Revenues*

Non-service revenues for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
	(in million pesos)		
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	<b>1,699</b>	1,928	2,679
Point-product-sales	<b>518</b>	498	285
(Note 4)	<b>2,217</b>	2,426	2,964

**Table of Contents***Compensation and Employee Benefits*

Compensation and employee benefits for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
		(in million pesos)	
Salaries and other employee benefits	<b>20,259</b>	19,468	18,286
Manpower rightsizing program, or MRP	<b>2,183</b>	493	417
Incentive plans (Notes 3 and 25)	<b>1,392</b>	1,833	1,281
Pension benefit costs (Notes 3 and 25)	<b>236</b>	1,306	725
	<b>24,070</b>	23,100	20,709

Over the past years, we have been implementing MRP in line with our continuing effort to reduce the cost base of our businesses. The total MRP cost charged to operations amounted to Php2,183 million, Php493 million and Php417 million for the years ended December 31, 2010, 2009 and 2008, respectively. The decision to implement the MRP was anchored on the challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

*Cost of Sales*

Cost of sales for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	<b>4,061</b>	4,690	4,573
Cost of point-product-sales	<b>588</b>	584	511
Cost of satellite air time and terminal units (Notes 24 and 26)	<b>122</b>	158	168
	<b>4,771</b>	5,432	5,252

*Asset Impairment*

Asset impairment for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
		(in million pesos)	
Goodwill and intangible assets (Notes 3 and 14)	<b>1,243</b>	379	2,450
Trade and other receivables (Notes 3 and 16)	<b>834</b>	2,335	1,079
Property, plant and equipment (Notes 3 and 9)	<b>120</b>	634	104
Inventories and supplies (Notes 3 and 17)	<b>108</b>	389	242
Investments in associates and joint ventures (Notes 3 and 10)	<b>78</b>		282
Prepayments and others (Notes 3 and 18)	<b>55</b>	1,324	23
	<b>2,438</b>	5,061	4,180

*Interest Income*

Interest income for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
		(in million pesos)	
Interest income on other loans and receivables	<b>1,134</b>	1,406	1,545
Interest income on fair value through profit or loss	<b>37</b>	86	58
Interest income on held-to-maturity investments	<b>29</b>	47	65
(Note 4)	<b>1,200</b>	1,539	1,668

**Table of Contents***Financing Costs net*

Financing costs net for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	<b>2010</b>	2009	2008
	(in million pesos)		
Interest on loans and other related items (Notes 4, 20 and 28)	<b>6,181</b>	6,008	5,861
Accretion on financial liabilities net (Notes 20, 21 and 28)	<b>1,177</b>	1,062	956
Financing charges	<b>50</b>	177	61
Capitalized interest (Notes 4 and 9)	<b>(710)</b>	(691)	(778)
Dividends on preferred stock subject to mandatory redemption (Note 8)			4
(Note 4)	<b>6,698</b>	6,556	6,104

Interest expense for short-term borrowings amounted to Php5 million, Php21 million and Php28 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**6. Other Comprehensive Income**

The movements of other comprehensive income under equity of our consolidated statements of financial position for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains (losses) on available- for-sale financial assets net of tax	Net on cash flow hedges net of tax	Revaluation increment on investment properties net of tax	Total other comprehensive income attributable to equity holders of PLDT	Non-controlling interests	Total other comprehensive income (loss) net of tax
	(in million pesos)						
Balances as at January 1, 2008	(1,827)	33	411		(1,383)	115	(1,268)
Other comprehensive income for the year	1,425	(9)	(411)		1,005	65	1,070
<b>Balances as at December 31, 2008</b>	<b>(402)</b>	24			<b>(378)</b>	<b>180</b>	<b>(198)</b>
Balances as at January 1, 2009	(402)	24			(378)	180	(198)
Other comprehensive income for the year	(642)	3			(639)	(15)	(654)
	<b>(1,044)</b>	27			<b>(1,017)</b>	<b>165</b>	<b>(852)</b>

**Balances as at  
December 31, 2009**

Balances as at January 1, 2010	(1,044)	27		(1,017)	165	(852)
Other comprehensive income for the year	(595)	22	314	(259)	(166)	(425)
<b>Balances as at December 31, 2010</b>	<b>(1,639)</b>	<b>49</b>	<b>314</b>	<b>(1,276)</b>	<b>(1)</b>	<b>(1,277)</b>

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment reclassified to investment property at the time of change in classification.

**7. Income Taxes***Corporate Income Tax*

The components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Net deferred income tax assets (Notes 3 and 4)	<b>6,110</b>	7,721
Net deferred income tax liabilities (Notes 3 and 4)	<b>(1,099)</b>	(1,321)

**Table of Contents**

The components of our consolidated net deferred income tax assets (liabilities) as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Net deferred income tax assets:		
Unearned revenues	<b>2,586</b>	3,412
Unamortized past service pension costs	<b>2,548</b>	2,974
Accumulated provision for doubtful accounts	<b>2,488</b>	2,708
Derivative financial instruments	<b>1,028</b>	825
Unrealized foreign exchange losses	<b>924</b>	1,291
MCIT	<b>446</b>	21
Provision for impaired assets	<b>379</b>	767
Accumulated write-down of inventories to net realizable values	<b>289</b>	293
NOLCO	<b>119</b>	44
Asset impairment	<b>27</b>	24
Capitalized taxes and duties net of amortization	<b>(186)</b>	(246)
Capitalized foreign exchange differential net of depreciation	<b>(363)</b>	(495)
Pension and other employee benefits	<b>(1,361)</b>	(891)
Undepreciated capitalized interest charges	<b>(2,685)</b>	(2,976)
Others	<b>(129)</b>	(30)
	<b>6,110</b>	7,721
Net deferred income tax liabilities:		
Unearned revenues	<b>668</b>	1,047
Pension and other employee benefits	<b>35</b>	100
Fair value adjustment on fixed assets	<b>(303)</b>	(332)
Undepreciated capitalized interest charges	<b>(304)</b>	(536)
Intangible assets and fair value adjustments on assets acquired net of amortization	<b>(423)</b>	(478)
Unrealized foreign exchange gains	<b>(707)</b>	(879)
Others	<b>(65)</b>	(243)
	<b>(1,099)</b>	(1,321)

Movements of our consolidated net deferred income tax assets (liabilities) for the years ended December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Net deferred income tax assets balance at beginning of year (Notes 3, 4 and 28)	<b>7,721</b>	9,605
Net deferred income tax liabilities balance at beginning of year (Notes 3, 4 and 28)	<b>(1,321)</b>	(1,288)
Net balance at beginning of year	<b>6,400</b>	8,317
Provision for deferred income tax (Note 3)	<b>(1,198)</b>	(656)
Movement charged directly to equity	<b>(139)</b>	
Business combinations (Note 13)		(349)
Excess MCIT deducted against RCIT due		(766)



Others	<b>(52)</b>	(146)
Net balance at end of year	<b>5,011</b>	6,400
Net deferred income tax assets balance at end of year (Notes 3, 4 and 28)	<b>6,110</b>	7,721
Net deferred income tax liabilities balance at end of year (Notes 3, 4 and 28)	<b>(1,099)</b>	(1,321)

The analysis of our consolidated net deferred income tax assets as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	<b>8,789</b>	9,565
Deferred income tax assets to be recovered within 12 months	<b>2,222</b>	3,605
	<b>11,011</b>	13,170
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	<b>(4,240)</b>	(4,793)
Deferred income tax liabilities to be settled within 12 months	<b>(661)</b>	(656)
	<b>(4,901)</b>	(5,449)
Net deferred income tax assets (Notes 3, 4 and 28)	<b>6,110</b>	7,721

**Table of Contents**

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	<b>690</b>	1,161
Deferred income tax assets to be recovered within 12 months	<b>72</b>	20
	<b>762</b>	1,181
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	<b>(1,746)</b>	(2,289)
Deferred income tax liabilities to be settled within 12 months	<b>(115)</b>	(213)
	<b>(1,861)</b>	(2,502)
Net deferred income tax liabilities (Notes 3, 4 and 28)	<b>(1,099)</b>	(1,321)

Provision for corporate income tax for the years ended December 31, 2010, 2009 and 2008 consists of:

	<b>2010</b>	2009	2008
	(in million pesos)		
Current	<b>12,228</b>	14,088	16,358
Deferred (Note 3)	<b>1,198</b>	656	2,715
	<b>13,426</b>	14,744	19,073

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax for the years ended December 31, 2010, 2009 and 2008 is as follows:

	<b>2010</b>	2009	2008
	(in million pesos)		
Provision for income tax at the applicable statutory tax rates	<b>16,105</b>	16,452	18,917
Tax effects of:			
Losses (income) subject to lower tax rate	<b>450</b>	(443)	1,408
Nondeductible expenses	<b>442</b>	201	724
Income not subject to income tax	<b>(324)</b>	(1,483)	(846)
Income subject to final tax	<b>(404)</b>	(502)	(616)
Equity share in net losses (earnings) of associates and joint ventures	<b>(423)</b>	(1)	62
Net movement in unrecognized deferred income tax assets and other adjustments	<b>(661)</b>	3,830	(576)
Difference between OSD and itemized deductions	<b>(1,759)</b>	(3,310)	
Others			
Actual provision for corporate income tax	<b>13,426</b>	14,744	19,073

The RCIT rate for domestic corporations and both resident and non-resident foreign corporations in the Philippines increased from 32% to 35% effective November 1, 2005 and was reduced to 30% effective January 1, 2009.

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008 which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. Under the OSD method in computing taxable income, corporations may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the year ended December 31, 2010, Smart and Wolfpac opted to use OSD in computing their taxable income. For the year ended December 31, 2009, Smart, PCEV, SHI and Wolfpac availed of the OSD in computing their taxable income.

Smart and Wolfpac expect to continue to use the OSD method for the foreseeable future. The availment of OSD method affected their recognition of deferred income tax assets and liabilities. Deferred income tax assets and liabilities of Smart and Wolfpac, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities on the consolidated statements of financial position. This is because the manner by which they will recover or settle the underlying assets and liabilities would not result in any future tax consequence assuming OSD were applied. Deferred income tax assets and liabilities, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD were applied, which results in such deferred income tax assets and liabilities being

**Table of Contents**

reduced by the 40% allowable deduction provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to OSD amounted to Php2,805 million and Php3,296 million as at December 31, 2010 and 2009, respectively. See *Note 3 Management's Use of Judgments, Estimates and Assumptions*. The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of OSD) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
NOLCO	<b>2,292</b>	2,341
Accumulated provision for doubtful accounts	<b>1,257</b>	894
Unearned revenues	<b>712</b>	188
Provisions for other assets	<b>170</b>	163
Accumulated write-down of inventories to net realizable values	<b>155</b>	261
Fixed asset impairment	<b>112</b>	111
Pension and other employee benefits	<b>60</b>	44
MCIT	<b>36</b>	19
Unrealized foreign exchange losses	<b>29</b>	33
Derivative financial instruments	<b>11</b>	19
Operating lease and others	<b>6</b>	3
	<b>4,840</b>	4,076
Unrecognized deferred income tax assets (Note 3)	<b>1,477</b>	1,236

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2010 is as follows:

<b>Date Incurred</b>	<b>Expiry Date</b>	<b>MCIT</b>	<b>NOLCO</b>
		(in million pesos)	
December 31, 2008	December 31, 2011	5	622
December 31, 2009	December 31, 2012	10	970
December 31, 2010	December 31, 2013	467	1,096
		482	2,688
Consolidated tax benefits		482	806
Consolidated unrecognized deferred income tax assets		(36)	(687)
Consolidated recognized deferred income tax assets		446	119

The excess MCIT totaling Php482 million can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php156 million, Php766 million and Php857 million for the years ended December 31, 2010, 2009 and 2008, respectively. The amount of expired portion of excess MCIT amounted to

Php5 million, Php3 million and Php2 million for the years ended December 31, 2010, 2009 and 2008, respectively. NOLCO totaling Php2,688 million as at December 31, 2010 can be claimed as deduction against future taxable income. The NOLCO that was claimed as deduction against taxable income amounted to Php445 million, Php56 million and Php17,710 million for the years ended December 31, 2010, 2009 and 2008, respectively. The amount of expired portion of NOLCO amounted to Php95 million, Php462 million and Php140 million for the years ended December 31, 2010, 2009 and 2008, respectively.

*Registration with Subic Bay Freeport and Clark Special Economic Zone*

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of

**Table of Contents**

capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

With the transfer of Mabuhay Satellite's leasehold rights over the parcel of land where its satellite facility within the Subic Bay Freeport Zone is located as discussed on *Note 9 Property, Plant and Equipment*, the registration of Mabuhay Satellite as a Subic Bay Freeport Enterprise was cancelled on July 1, 2010. Mabuhay Satellite is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

*Registration with Philippine Economic Zone Authority, or PEZA*

SPi is registered as an Ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions.

SPi CRM is registered as an Ecozone export enterprise to develop and operate a customer relationship management that serves local and overseas clients by providing customer relationship management services.

As registered PEZA enterprises, SPi and SPi CRM are entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the Treasurer's Office of the Municipality or City where the enterprise is located.

Parlance, which is now merged into SPi CRM, was previously registered with the Board of Investments, or BOI, and became entitled to the same tax incentive provided to SPi CRM as set out earlier. Parlance's ITH incentive under BOI expired on May 31, 2010 and its registration with PEZA was approved on April 30, 2010.

Two of its facilities (SPi CRM Iloilo and SPi CRM Pasig) will continue to enjoy ITH incentive as a BOI registered entity in PEZA registered locations. ITH incentive commenced in March 2005 up to February 2011 for SPi CRM Iloilo. Upon expiration of the ITH, SPi CRM Iloilo is now subject to a special income tax rate of 5% of gross income as a PEZA registered location. ITH incentive commenced in August 2006 up to July 2012 for SPi CRM Pasig. In relation to this, they are required to comply with specific terms and conditions stated in their PEZA Supplemental Agreement.

The registration with PEZA for the operations of SPi CRM in Dumaguete is still in progress and therefore it is subject to the regular corporate income tax. However, the Local Investment Board of Dumaguete City had issued a Certificate of Registration and Eligibility which granted SPi CRM the exemption to pay local business taxes and basic real property taxes on improvements for the period from November 2010 to October 2013.

SHI was registered with the PEZA as an Ecozone information technology enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SHI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009.

Chikka Philippines, Inc., or CPI, was registered with the PEZA as an Ecozone information technology enterprise on a non-pioneer status last July 28, 2005. Under the terms of registration, CPI was entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years from July 2005 to July 2009. Upon expiration of the ITH, CPI is now subject to 5% special tax on gross revenue, net of certain deductions specifically provided for by the Act, in lieu of all national and local taxes, except real property taxes imposed by the local government. Income derived from non-registered activities is subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

*Registration with BOI*

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility from January 2007.

**Table of Contents**

Level Up! was originally registered with the BOI as a new IT service firm in the field of application service provider on a non-pioneer status. Under such registration, Level Up! is entitled to certain tax incentives, which includes a four-year ITH from January 2003 and a tax credit for taxes on duties on materials used in export products for ten years starting January 2003. In April 2004, the BOI approved Level Up! s request for upgrading its status from non-pioneer to pioneer in connection with its IT service activity in the field of application service provider for entertainment and education project. Accordingly, the ITH period was extended from four years to six years and expired in January 2009. Level Up! is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Wolfpac is registered with the BOI as a new IT service firm in the field of an application service provider on a non-pioneer status. Under the terms of its registration, it is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting February 2004. On November 29, 2007, the BOI approved Wolfpac s application for a one-year extension of ITH incentive on the basis that the capital equipment to labor ratio did not exceed US\$10 thousand to one direct labor employee, as provided under Article 39 of Executive Order 226. The approved additional ITH is for the period from February 13, 2008 to February 12, 2009 and was not further extended. As such, Wolfpac is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

SBI is registered with the BOI on a pioneer status, namely as: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of registration, SBI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years. As at December 31, 2010, only the BOI registration for nationwide broadband wireless access continues to enjoy the ITH incentive, which will expire in July 2011.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate enacted as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php686 million, Php1,241 million and Php1,763 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**8. Earnings Per Common Share**

The following table presents information necessary to calculate the earnings per common share, or EPS, for the years ended December 31, 2010, 2009 and 2008:

	2010		2009		2008	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(in million pesos)					
Consolidated net income for the year attributable to equity holders of PLDT (Note 4)	<b>40,217</b>	<b>40,217</b>	39,781	39,781	34,317	34,317
Dividends on preferred shares (Note 19)	<b>(458)</b>	<b>(458)</b>	(457)	(457)	(455)	(455)
Consolidated net income for the year attributable to common equity holders of PLDT	<b>39,759</b>	<b>39,759</b>	39,324	39,324	33,862	33,862
	(in thousands, except per share amounts)					
Outstanding common shares at beginning of year	<b>186,797</b>	<b>186,797</b>	187,484	187,484	188,741	188,741
Effect of issuance of common shares during the year (Note 19)			15	15	542	542

Average incremental number of shares under executive stock option plan, or ESOP, during the year				21		13
Effect of purchase of treasury stock during the year (Note 19)	(7)	(7)	(583)	(583)	(1,120)	(1,120)
Weighted average number of common shares for the year	<b>186,790</b>	<b>186,790</b>	186,916	186,937	188,163	188,176
Earnings per share for the year attributable to common equity holders of PLDT	<b>Php 212.85</b>	<b>Php 212.85</b>	Php 210.38	Php 210.36	Php 179.96	Php 179.95

Basic EPS is calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common



**Table of Contents**

shares outstanding during the year.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the year exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decrease the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common share equivalent arising from the conversion of the dilutive convertible preferred shares.

Since the amount of dividends on Series A to HH in 2010, Series A to EE in 2009 and Series A to EE, Series V Convertible Preferred Stock and Series VI Convertible Preferred Stock in 2008 over its equivalent number of common shares increased the basic EPS, these Convertible Preferred Stock were deemed anti-dilutive. The calculation is based on the required dividends on these preferred shares divided by the number of equivalent common shares assuming such preferred shares are converted into common shares, including the effect of shares under the ESOP and treasury shares, and compared against the basic EPS.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2010. We had acquired a total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the years ended December 31, 2010 and 2009. See *Note 19 Equity* and *Note 28 Financial Assets and Liabilities* for further discussion.

**Table of Contents****9. Property, Plant and Equipment**

As at December 31, 2010 and 2009, this account consists of:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communication satellite equipment	Information origination and transmission equipment	Land and improvements	Property under construction	Total
(in million pesos)										
<b>As at December 31, 2008</b>										
Cost	115,980	83,562	76,229	21,040	34,816	9,581	8,251	2,527	25,234	377,220
Accumulated depreciation, impairment and amortization	(58,380)	(62,644)	(43,419)	(8,173)	(28,742)	(8,675)	(6,588)	(273)		(216,894)
Net book value	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
<b>Year Ended December 31, 2009</b>										
Net book value at beginning of year	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
Additions	1,834	513	4,040	316	1,970	149	225	67	19,091	28,205
Disposals/Retirements	(530)	(6)	(843)	(6)	(107)	(463)	(3)	(5)	(1,228)	(3,191)
Translation differences charged directly to cumulative translation adjustments	3	(2)		(10)	(13)	(47)				(69)
Acquisition through business combinations (Note 13)	1,348	194	141	186	104		420	105	(10)	2,488
Impairment losses recognized during the year (Notes 3, 4 and 5)			(96)	(54)	(17)		(418)	(49)		(634)
Reclassifications/Transfers (Note 12)	6,949	2,776	8,404	326	386		110	(184)	(19,029)	(262)
Depreciation and amortization (Notes 3 and 4)	(8,793)	(3,381)	(9,013)	(1,151)	(2,176)	(545)	(542)	(6)		(25,607)
Net book value at end of year (Note 3)	58,411	21,012	35,443	12,474	6,221		1,455	2,182	24,058	161,256
<b>As at December 31, 2009</b>										
Cost	126,327	87,517	83,451	21,693	35,282	966	8,940	2,458	24,058	390,692
	(67,916)	(66,505)	(48,008)	(9,219)	(29,061)	(966)	(7,485)	(276)		(229,436)

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Accumulated depreciation,  
impairment and  
amortization

Net book value (Note 3)	58,411	21,012	35,443	12,474	6,221	1,455	2,182	24,058	161,256
-------------------------	--------	--------	--------	--------	-------	-------	-------	--------	---------

**Year Ended**

**December 31, 2010**

Net book value at beginning of year (Note 3)	58,411	21,012	35,443	12,474	6,221	1,455	2,182	24,058	161,256
Additions	1,494	245	2,336	228	2,045	184		22,284	28,816
Disposals/Retirements	(10)	(60)	(59)	(286)	(67)			(2)	(484)
Translation differences charged directly to cumulative translation adjustments	23	7		(5)	(59)			(4)	(38)
Acquisition through business combinations (Note 13)					73				73
Impairment losses recognized during the year (Notes 3, 4 and 5)		(11)		(13)	(5)	(91)			(120)
Reclassifications/Transfers (Notes 12 and 13)	4,578	2,440	5,653	823	1,740	104	(54)	(15,326)	(42)
Depreciation and amortization (Notes 3 and 4)	(7,851)	(3,705)	(9,418)	(2,004)	(2,792)	(506)	(1)		(26,277)
Net book value at end of year (Note 3)	56,645	19,928	33,955	11,217	7,156	1,146	2,127	31,010	163,184

**As at December 31, 2010**

Cost	132,356	89,992	90,574	21,873	38,078	966	9,136	2,405	31,010	416,390
Accumulated depreciation, impairment and amortization	(75,711)	(70,064)	(56,619)	(10,656)	(30,922)	(966)	(7,990)	(278)		(253,206)
Net book value (Note 3)	56,645	19,928	33,955	11,217	7,156	1,146	2,127	31,010	163,184	

Substantially, all our telecommunications equipment are purchased from outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars. See *Note 20 Interest-bearing Financial Liabilities*.

Interest and net foreign exchange losses capitalized to property, plant and equipment that qualified as borrowing costs for the years ended December 31, 2010, 2009 and 2008 are as follows:

		<b>2010</b>	2009	2008
			(in million pesos)	
Interest (Note 5)		<b>710</b>	691	778
Foreign exchange losses (gains)	net		(119)	385

The average interest capitalization rates used were approximately 7%, 6% and 8% for the years ended December 31, 2010, 2009 and 2008, respectively.

**Table of Contents**

Our undepreciated capitalized net foreign exchange losses which qualified as borrowing costs amounted to Php1,325 million and Php1,799 million as at December 31, 2010 and 2009, respectively.

The useful lives of our assets are estimated as follows:

Cable and wire facilities	10	15 years
Central office equipment	10	20 years
Cellular facilities	3	10 years
Buildings		25 years
Vehicles, furniture and other network equipment	3	5 years
Information origination and termination equipment	3	15 years
Land and land improvements		10 years

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases amounted to Php4 million and Php24 million as at December 31, 2010 and 2009, respectively. See *Note 20 Interest-bearing Financial Liabilities*.

*Satellite Wholesale Lease and Purchase Agreement, or SWLPA, and Operations Management Agreement, or OMA, between Mabuhay Satellite and Asia Broadcast Satellite Holdings, Ltd.*

On October 22, 2009, Mabuhay Satellite entered into SWLPA and OMA with Asia Broadcast Satellite Holdings, Ltd., or ABS, a Bermuda company engaged in the satellite business, involving the wholesale lease by ABS of the Agila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, the purchase by ABS of the business of Mabuhay Satellite.

Under the SWLPA, Mabuhay Satellite, in exchange for a total consideration of US\$12.5 million, or Php580 million, will: (i) lease to ABS the Agila 2 satellite; (ii) assign the customer contracts to ABS; and (iii) transfer to ABS the Mabuhay Satellite's ground control facilities, employees, leasehold rights, other assets and the Agila 2 satellite. The term of the lease is for a period starting from the effective date of SWLPA to the earlier of: (a) the end of life of Agila 2 satellite; or (b) the date when Mabuhay Satellite assigns, transfers and conveys to ABS all of its rights, title and interest in the Agila 2 satellite. As part of the wholesale lease, Mabuhay Satellite is required to assign to ABS all its rights, title, interest, benefits and obligations in the customer contracts attached to all transponders that are covered by the SWLPA.

Under the OMA, after the closing of the agreement but prior to the transfer and conveyance of the ground control facilities to ABS pending the receipt of International Traffic in Arms Regulations approval, the parties agree that Mabuhay Satellite will operate and manage the Agila 2 satellite, the transponders and the ground control facilities for and on behalf of ABS. Mabuhay Satellite is required to provide the operations and management services for and in consideration of: (a) one-time payment by ABS to Mabuhay Satellite of the amount of US\$500 thousand, or Php23 million; and (b) the reimbursement by ABS to Mabuhay Satellite of the amount equivalent to the actual expenses, costs, losses and liabilities incurred by Mabuhay Satellite in providing the services.

As at December 31, 2009, all significant closing conditions had been secured. On January 18, 2010, Mabuhay Satellite, ABS and Asia Broadcast Satellite, Ltd., formally executed a Conditions Precedent Waiver and First Closing Confirmation, confirming that the first closing was deemed to have occurred effective December 31, 2009. First Closing means the date when the assignment of customer contracts to ABS became effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least 2/3 of its outstanding capital stock was obtained. Following the confirmation of first closing, the wholesale lease of transponders by Mabuhay Satellite to ABS was considered as a finance lease and the transaction was recognized as sale of satellite for a total consideration of US\$9.9 million, or Php460 million, including the cost of customer contracts as at December 31, 2009.

On July 1, 2010, Mabuhay Satellite, ABS and Broadband Broadcast Services Pte. Ltd., or BBS, executed a Conditions Precedent Waiver and Second Closing Confirmation, confirming that the second closing was deemed to have occurred on July 1, 2010. Second Closing means that date when transfer to BBS of Mabuhay Satellite's ground control facilities, employees, leasehold rights and other assets and the transfer of ABS of the Agila 2 satellite became effective.

Following the confirmation of second closing, the OMA was terminated.



**Table of Contents***Impairment of BOW s Property and Equipment*

In 2009, impairment losses were recognized equal to the net carrying value of BOW s property and equipment amounting to Php524 million. The impairment losses resulted from the annual asset impairment test comparing the recoverable amount of the asset against its carrying value. The recoverable amount was determined based on value in use calculation using cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors. The pre-tax discount rate applied to cash flow projections is 8.7% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry. See *Note 14 Goodwill and Intangible Assets*.

*Impairment of Smart s Payphone Business*

In September 2010, Smart recognized impairment losses on its public telephone equipment in the amount of Php92 million and engaged a third party contractor to operate and maintain its payphone business. Prior to the engagement of the third party, an impairment test was done to assess net cash flows from the business. The result showed that the future net cash flows were not enough to recover the carrying value of the related assets over the useful life of such assets. The recoverable amount was determined based on value in use, calculated using cash flow projections covering a three-year period from 2011 to the end of the assets expected useful lives in 2013. The pre-tax discount rate applied to cash flow projections was 7%.

**10. Investments in Associates and Joint Ventures**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Carrying Value of Investments in Associates:		
Meralco	<b>6,733</b>	21,420
Philweb Corporation, or Philweb	<b>878</b>	750
ACeS International Limited, or AIL		
	<b>7,611</b>	22,170
Carrying Value of Investments in Joint Ventures:		
Beacon	<b>15,438</b>	
Mobile Payment Solutions Pte. Ltd., or MPSPL	<b>104</b>	
ePDS, Inc., or ePDS	<b>50</b>	43
PLDT Italy S.r.l., or PLDT Italy		20
	<b>15,592</b>	63
Total carrying value of investments in associates and joint ventures (Note 28)	<b>23,203</b>	22,233

Movements in the cost of investments for the years ended December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Balance at beginning of year	<b>24,170</b>	4,346
Additions during the year (including transfer of interests in Meralco to Beacon)	<b>15,245</b>	21,555
Disposal during the year (including transfer of interests in Meralco to Beacon)	<b>(14,767)</b>	
Business combinations (Note 13)		(821)
Dissolution of Mabuhay Space Holdings Limited, or MSHL		(887)
Translation and other adjustments	<b>(12)</b>	(23)

Balance at end of year	<b>24,636</b>	24,170
------------------------	---------------	--------

216

---



**Table of Contents**

Movements in the accumulated impairment losses for the years ended December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Balance at beginning of year	<b>1,906</b>	2,903
Impairment for the year (Notes 3, 4 and 5)	<b>78</b>	
Dissolution of MSHL		(887)
Translation and other adjustments	<b>(10)</b>	(110)
Balance at end of year	<b>1,974</b>	1,906

Movements in the accumulated equity share in net earnings (losses) of associates and joint ventures for the years ended December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Balance at beginning of year	<b>(31)</b>	(269)
Equity share in net earnings (losses) of associates and joint ventures for the year (Note 4):	<b>1,408</b>	2
Meralco	<b>874</b>	398
Beacon	<b>354</b>	
Philweb	<b>161</b>	152
ePDS	<b>26</b>	21
SHI	<b>(7)</b>	
BayanTrade		(5)
PLDT Italy		(98)
BOW		(466)
Disposals	<b>(316)</b>	
Dividends	<b>(530)</b>	(357)
Translation and other adjustments	<b>10</b>	593
Balance at end of year	<b>541</b>	(31)

**Investments in Associates***PCEV's Acquisition of Shares in Meralco*

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., (collectively, the Lopez Group) and PLDT entered into an investment and cooperation agreement under which: (a) PLDT acquired, through PCEV as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20,070 million, or Php90 per share; and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its assignee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, PCEV and FPUC also entered into an exchangeable note agreement under which PCEV purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2,000 million, exchangeable into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by PCEV in the transaction. The exchange option was exercised simultaneously with the acquisition of such shares by PCEV. PCEV recognized a derivative asset of Php563 million on April 20, 2009 for the exchange option feature of the agreement. The residual amount of Php1,437 million was allocated as the value of the host contract of the exchangeable note. The derivative asset was subsequently carried at fair value through profit or loss while the host contract was carried at amortized cost

using effective interest rate.

On July 14, 2009, PCEV completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18,070 million for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note, representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note's discount of Php116 million. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

217

---

**Table of Contents**

PCEV engaged the services of an independent appraiser to determine the fair value of Meralco's specific identifiable assets and liabilities and allocate the purchase price of PCEV's investment in Meralco among the identified assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php8,377 million between PCEV's share on the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of PCEV's investments was allocated as follows: (a) Php1,517 million for utility, plant and others; (b) Php320 million for investment properties; (c) Php36 million for investments in associates and joint ventures; (d) Php1,286 million for intangible assets particularly for franchise; (e) Php137 million for contingent liability; (f) Php1,295 million for deferred income tax liability; and (g) Php6,650 million for goodwill.

On March 30, 2010, PCEV reduced its investment in Meralco by Php15,083 million, the proportionate carrying amount of the 154.2 million Meralco shares sold and transferred to Beacon, see discussion under Investments in Joint-Ventures Transfer of PCEV's Equity Interest in Meralco section. PCEV will continue to use the equity method to account for its remaining investment in 68.8 million of Meralco's common shares. See *Note 3 Management's Use of Judgments, Estimates and Assumptions*. The carrying value of investment in Meralco based on quoted share price of Php228 per share amounted to Php6,733 million with market value of Php15,686 million as at December 31, 2010.

*Investment of ePLDT in Philweb*

In May 2006, ePLDT subscribed to newly issued common shares of Philweb, an internet-based online gaming company, equivalent to 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share or an aggregate amount of Php503 million. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. A portion of the unpaid subscription price amounting to Php25 million will be paid by ePLDT at the same time as the Philweb majority stockholders pay the remaining unpaid portion of the subscription pursuant to a general call on subscription to be made by Philweb's Board of Directors. The remaining unpaid balance of Php50 million will be paid upon the lapse of certain post-closing price adjustment periods.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share or an aggregate amount of Php209 million. This represents an additional 6.2% of the outstanding shares of Philweb, raising ePLDT's total equity stake to 26.87%. As at December 31, 2010 and 2009, ePLDT's equity interest in Philweb is 26.4%.

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. The market value of ePLDT's investment in Philweb, based on quoted share price, amounted to Php5,358 million and Php6,134 million as at December 31, 2010 and 2009, respectively.

*Investment of ACeS Philippines in AIL*

As at December 31, 2010, ACeS Philippines had a 36.99% investment in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers, or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net losses of AIL amounted to Php35 million and Php1 million for the years ended December 31, 2010 and 2009, respectively, while the unrecognized share in net gains of AIL amounted to Php27 million for the year ended December 31, 2008. Share in net cumulative losses amounting to Php3,639 million and Php3,820 million as at December 31, 2010 and 2009, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on

**Table of Contents**

behalf of AIL.

See *Note 24 Related Party Transactions* and *Note 26 Contractual Obligations and Commercial Commitments* for further details as to the contractual relationships with respect to AIL.

**Summarized Financial Information of Associates**

The following tables present the summarized financial information of our investments in associates in conformity with IFRS for equity investees in which we have significant influence as at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008:

	2010	2009
	(in million pesos)	
<b>Statements of Financial Position:</b>		
Noncurrent assets	<b>131,812</b>	128,954
Current assets	<b>57,058</b>	46,098
Equity	<b>60,983</b>	52,411
Noncurrent liabilities	<b>79,501</b>	78,949
Current liabilities	<b>48,386</b>	43,692

	2010	2009	2008
	(in million pesos)		
<b>Income Statements:</b>			
Revenues	<b>246,807</b>	186,227	572
Expenses	<b>229,145</b>	178,018	359
Other expenses	<b>1,242</b>	1,966	76
Net income	<b>10,834</b>	6,634	290

The above information includes the financial information of Meralco, which were adjusted to conform with our accounting policy on investment properties, as at and for the years ended December 31, 2010 and 2009 as shown below:

	2010	2009
	(in million pesos)	
<b>Statements of Financial Position:</b>		
Noncurrent assets	<b>130,423</b>	127,444
Current assets	<b>54,831</b>	44,685
Equity	<b>68,339</b>	61,146
Noncurrent liabilities	<b>72,552</b>	68,860
Current liabilities	<b>44,363</b>	42,123
<b>Income Statements:</b>		
Revenues	<b>245,461</b>	184,872
Expenses	<b>228,288</b>	173,927
Other expenses	<b>1,281</b>	1,966
Net income	<b>10,117</b>	6,005

**Investments in Joint Ventures**

*Transfer of PCEV's Equity Interest in Meralco*

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., was organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity shares 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.

**Table of Contents***Investment in Beacon*

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon, consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

On April 29, 2010, the Philippine SEC approved Beacon's application to increase its authorized capital stock to Php5 billion consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540 million in the aggregate; and (2) Php6,600 million in cash, as further described below in *Transfer of Meralco Shares to Beacon*.

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of PCEV, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon. The deposit for future stock subscription was eventually reclassified to investment account when Beacon's increase in authorized capital stock was approved by the Philippine SEC.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in *Transfer of Meralco Shares to Beacon* section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

**Table of Contents***Transfer of Meralco Shares to Beacon*

Alongside with the subscription to the Beacon shares described above, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the PCEV Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the approval of the shareholders of PCEV, which was obtained on May 7, 2010. Consequently, on May 12, 2010, PCEV transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million.

The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,083 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon by MPIC and PCEV in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

PCEV may, at some future time and under such terms and conditions as may be agreed by PCEV and Beacon, transfer to Beacon its remaining 68.8 million Meralco common shares.

*Call Option*

Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

**Table of Contents**

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

*Property Dividends*

With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by PCEV and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

*Governance Arrangements*

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure resulted in a jointly-controlled entity.

On March 30, 2010, Beacon also entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. The amount drawn under this facility amounted to Php16,200 million (Php16,027 million, net of debt issuance cost of Php173 million), and the remaining undrawn balance amounted to Php1,800 million as at December 31, 2010.

In 2010, Beacon engaged the services of an independent appraiser to provide the fair market values of the operating equity investments, fixed assets and intangible assets of Meralco at the time of Beacon's acquisition of its Meralco shares and allocate the purchase price of Beacon's investment in Meralco among the identifiable assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php50,595 million between Beacon's share of the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of Beacon's investment was allocated as follows: (a) Php2,521 million for utility plant and others; (b) Php341 million for investment properties; (c) Php59 million for investment in associates and joint ventures; (d) Php1,814 million for intangible assets particularly for franchise; (e) Php26 million for contingent liability; (f) Php2,018 million for deferred income tax liabilities; and (g) Php47,904 million for goodwill.

Beacon also recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for certain property dividends that may be declared on its Meralco shares pursuant to the Option Agreement between Beacon and FPHC. The liability for contingent consideration was remeasured based on the fair value of said property dividends as at December 31, 2010, and the resulting re-measurement loss of Php331 million was charged to profit or loss.

As at December 31, 2010, the carrying value of Beacon's investment in Meralco of Php73,322 million includes: (a) consideration for the Transferred Shares from PCEV of Php23,130 million and from MPIC of Php24,540 million; (b) consideration for the Option Shares from FPHC of Php22,410 million; (c) liability for contingent consideration of Php2,373 million; (d) capitalized costs of Php942 million pursuant to an agreement between PCEV and MPIC; and (e) equity share in net earnings of Meralco of Php2,655 million less (f) dividends received of Php2,728 million from Meralco.



**Table of Contents**

As at December 31, 2010, Beacon held 393 million Meralco common shares representing approximately 35% equity interest in Meralco with market value of Php89,490 million based on quoted price of Php228 per share.

*Investment of SHI in MPSPL*

In June 2010, SHI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a joint venture agreement under which the parties agreed to form MPSPL. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPSPL was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SHI and MasterCard Asia, respectively. On November 9, 2010, SHI contributed US\$2.4 million representing 40% ownership in MPSPL.

*Investment of ePLDT in ePDS*

ePLDT entered into a joint venture agreement on June 27, 2003 with DataPost Pte. Ltd., or DataPost, a subsidiary of Singapore Post, or Spring, and G3 Worldwide ASPAC pursuant to which the parties formed ePDS, a bills printing company that performs laser printing and enveloping services for statements, bills and invoices, and other VAS for companies in the Philippines. ePLDT has a 50% equity interest in ePDS, while DataPost has a 30% equity interest. Spring, the largest international mail services provider, owns the remaining 20% equity interest. ePDS has an initial paid-up capital of Php11 million.

*Investment of PLDT Global in PLDT Italy*

PLDT Global holds 100% nominal interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, the aggregate amount of funding to be contributed by PLDT Global and HGC to PLDT Italy, in equal proportions, is capped at Euro 7.0 million. PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholding in PLDT Italy to HGC.

In May and December 2010, the PLDT Italy Board of Directors, during its special meetings, approved the conversion of both partner's loans to PLDT Italy totaling Euro 730 thousand into equity and to infuse additional cash of Euro 1 million.

The aggregate amount of funding contributed by PLDT Global and HGC to PLDT Italy was Euro 7.7 million and Euro 6.0 million as at December 31, 2010 and 2009, respectively. PLDT Global's share of equity in the joint venture amounted to Euro 3.9 million, or Php238 million, and Euro 3.0 million, or Php200 million, as at December 31, 2010 and 2009, respectively.

**Summarized Financial Information of Joint Ventures**

The following table presents the summarized financial information of our investments in joint ventures as at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.

	2010	2009
	(in million pesos)	
<b>Statements of Financial Position:</b>		
Noncurrent assets	<b>73,366</b>	103
Current assets	<b>1,807</b>	244
Equity	<b>55,047</b>	57
Noncurrent liabilities	<b>16,037</b>	88
Current liabilities	<b>4,089</b>	202
	<b>2010</b>	2009
	(in million pesos)	
	2009	2008
	(in million pesos)	
<b>Income Statements:</b>		

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Revenues	<b>2,884</b>	387	175
Expenses	<b>297</b>	527	387
Other expenses	<b>1,503</b>	3	2
Net income	<b>1,065</b>	154	223

223

---

**Table of Contents**

The above information includes the financial information of Beacon as at and for the year ended December 31, 2010 as shown below:

	(in million pesos)
<b>Statement of Financial Position:</b>	
Noncurrent assets	<b>73,322</b>
Current assets	<b>1,658</b>
Equity	<b>54,956</b>
Noncurrent liabilities	<b>16,027</b>
Current liabilities	<b>3,997</b>
<b>Income Statements:</b>	
Equity share in net income of Meralco	<b>2,655</b>
Expenses	<b>78</b>
Other expenses	<b>1,501</b>
Net income	<b>1,077</b>

As at December 31, 2010, we have no outstanding capital commitments with our joint ventures.

**11. Investment in Debt Securities**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
National Power Corporation, or NAPOCOR, Zero Coupon Bond	<b>334</b>	312
Rizal Commercial Banking Corporation, or RCBC, Note	<b>150</b>	150
Noncurrent portion of investment in debt securities (Note 28)	<b>484</b>	462

*NAPOCOR Zero Coupon Bonds*

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, maturing on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond, which is classified as a financial asset held-to-maturity, is carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php22 million, Php20 million and Php19 million for the years ended December 31, 2010, 2009 and 2008, respectively.

*RCBC Note*

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC Note may be redeemed at the option of the Issuer at par plus accrued and unpaid interest on February 22, 2013. Smart designated the RCBC Note as held-to-maturity financial asset. Interest income recognized on the RCBC Note amounted to Php8 million for each of the years ended December 31, 2010 and 2009 and Php7 million for the year ended December 31, 2008.

**12. Investment Properties**

Movements in investment properties account for the years ended December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Balance at beginning of year	<b>1,210</b>	617

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Transfers from property, plant and equipment (Note 9)	<b>491</b>	262
Net gains from fair value adjustments charged to profit or loss <sup>(1)</sup> (Note 3)	<b>6</b>	352
Disposals	<b>(147)</b>	(21)
Balance at end of year (Notes 3 and 28)	<b>1,560</b>	1,210

*(1) Presented as part of Other income in our consolidated income statement.*

224

---

**Table of Contents**

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation was based on an open market value, supported by a market evidence in which such assets could be exchanged between a knowledgeable and willing buyer and seller in an arms length transaction at the date of valuation. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses relating to investment properties amounted to Php75 million, Php24 million and Php3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**13. Business Combinations and Acquisition of Non-Controlling Interests****2009 Acquisitions***PLDT's Acquisition of Philcom*

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

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	(in million pesos)
<b>Assets:</b>	
Property, plant and equipment	1,851
Available-for-sale financial assets	5
Deferred income tax assets - net	3
Cash and cash equivalents	51
Trade and other receivables	204
Inventories and supplies - net	15
Prepayments	8
	2,137
<b>Liabilities:</b>	
Long-term debt	340
Deferred income tax liabilities - net	381
Pension and other employee benefits	13
Accounts payable	1,206
Accrued expenses and other current liabilities	77
Dividends payable	2
Income tax payable	3
	2,022
	115
Non-controlling interests	40
Net assets acquired	75

Non-controlling interests represent the interest not owned by Philcom in its two subsidiaries, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php204 million and Php679 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php475 million.

Total revenues and net income of Philcom included in our 2009 consolidated income statement from the time of acquisition until December 31, 2009 amounted to Php387 million and Php2 million, respectively.

*ePLDT's Acquisition of BayanTrade*

On January 20, 2009 and April 15, 2009, ePLDT acquired additional equity interest of 34.3% and 48.4%, respectively, in BayanTrade for a cash consideration of Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.5% as at April 15, 2009.

**Table of Contents**

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values on April 15, 2009 as follows:

	Previous Carrying Value	Fair Value Recognized on Acquisition  (in million pesos)
<b>Assets:</b>		
Property, plant and equipment	21	21
Goodwill (Note 14)	184	216
Deferred income tax assets net	19	19
Advances and refundable deposits	11	7
Cash and cash equivalents	6	6
Trade and other receivables	179	156
Prepayments and other current assets	6	
	426	425
<b>Liabilities:</b>		
Long-term debt	150	150
Pension and other employee benefits	5	5
Other noncurrent liabilities	59	16
Accounts payable	85	121
Accrued expenses and other current liabilities	75	82
	374	374
	52	51
Non-controlling interests	(9)	(10)
Net assets acquired	61	61

The net assets acquired in the December 31, 2009 consolidated financial statements were based on a provisional assessment of fair value as we are still in the process of determining the fair value of BayanTrade's identifiable assets and liabilities. The results of this valuation had not been finalized as at the date the 2009 consolidated financial statements were approved for issuance by the Board of Directors.

The valuation of BayanTrade's assets was completed in 2010 and the fair value of goodwill increased by Php32 million to Php216 million as a result of adjustments in the fair values of certain assets and liabilities as presented in the above table. The 2009 comparative information were no longer restated to reflect the adjustments and instead, were accounted for as current year adjustments.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php156 million and Php7 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php165 million and Php7 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php9 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The goodwill of Php216 million pertains to the fair value of assembled workforce which offers managed information technology services and has personnel with skills in Systems, Applications and Products, Microsoft and other Enterprise Resource Planning, or ERP. BayanTrade has the largest pool of ERP practitioners in the South East Asia

region.

Our consolidated revenues would have increased by Php61 million while our consolidated net income would have decreased by Php19 million for the year ended December 31, 2009 had the acquisition of BayanTrade actually taken place on January 1, 2009. Total revenues and net losses of BayanTrade included in our 2009 consolidated income statement from April 15, 2009 to December 31, 2009 amounted to Php275 million and Php27 million, respectively.

*Smart's Acquisition of Non-Controlling Interests in PCEV*

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, fully payable in cash on August 12, 2009, from PCEV's non-controlling shareholders up to approximately 840 million shares which is approximately 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report with the Philippine SEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code, or SRC. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of PCEV's non-controlling shares tendered, thereby increasing Smart's ownership to



**Table of Contents**

approximately 99.5% of the outstanding common stock of PCEV. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statement of financial position.

*Smart's Acquisition of Shares in BOW*

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW, a Dublin-based company delivering GSM communication capability for the merchant maritime sector to approximately 1.2 million shares representing 51.0% of the total issued and outstanding shares of BOW from 381 thousand shares or 28.3%. Total acquisition cost for Smart's investment in BOW amounted to US\$9 million, or Php439 million, which consists of: (a) US\$4 million, or Php182 million, in cash; (b) US\$2 million, or Php119 million, worth of advances; and (c) fair value of previously held interest amounting to US\$3 million, or Php138 million. Net cash outflow related to the acquisition was US\$12 million, or Php552 million, representing cash payment of US\$17 million, or Php783 million, net of cash acquired from BOW of US\$5 million, or Php231 million.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values in July 2009 as follows:

	In U.S. Dollar	In Php <sup>(1)</sup> (in millions)
<b>Assets:</b>		
Property, plant and equipment	12	558
Goodwill (Note 14)	1	45
Intangible assets (Note 14)	5	221
Advances and refundable deposits		7
Cash and cash equivalents	5	231
Trade and other receivables		33
Prepayments		31
	23	1,126
<b>Liabilities:</b>		
Long-term debt	4	203
Accrued expenses and other current liabilities	2	106
	6	309
	17	817
Non-controlling interests	8	378
	9	439
Net assets acquired	9	439

<sup>(1)</sup> Converted to Philippine Peso using the exchange rate at the time of purchase of Php48.07 to US\$1.00.

Non-controlling interests represent interest not owned by Smart, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value of trade and other receivables and advances and refundable deposits, which is equal to gross amount, amounted to Php33 million and Php7 million, respectively.

The acquisition date fair value of previously held equity interest of 28.3% by Smart immediately before the acquisition date amounted to Php138 million. The amount of loss recognized as a result of remeasuring previously

held equity interest to fair value amounted to Php381 million and is included in Equity share in net earnings of associates and joint ventures in our consolidated income statement.

The goodwill of Php45 million pertains to the fair value of the synergies arising from the acquisition of BOW by SCH. BOW complements *Smart Link*, Smart's satellite service catering to the mobile communication requirements of the international maritime market.

Our consolidated revenues would have increased by Php68 million while our consolidated net income would have decreased by Php300 million for the year ended December 31, 2009 had the additional acquisition of BOW actually taken place on January 1, 2009. Total revenues and net losses of BOW included in our 2009 consolidated income statement from July 2009 to December 31, 2009 amounted to Php10 million and Php906 million, respectively.

**Table of Contents***SPI's Acquisition of Laguna Medical Systems, Inc., or Laguna Medical*

On August 31, 2009, SPI acquired through SPI-America, a wholly-owned U.S. subsidiary of SPI, a 100% equity interest in Laguna Medical for a cash contribution of US\$6.6 million, or Php313 million, plus a contingent consideration in the form of a mandatory put-call option with an aggregate fair value at acquisition date of US\$5.4 million, or Php257 million. As at date of the acquisition, the net cash outflows related on acquisition was US\$5.6 million, or Php287 million, representing cash payments of US\$6.6 million, or Php313 million, net of cash acquired from Laguna Medical of US\$1 million, or Php26 million. Total purchase price consideration including the fair market value of contingent liability at acquisition date amounted to US\$12 million, or Php579 million. Incidental cost related to the acquisition was recognized as expense. See *Note 21 Deferred Credits and Other Noncurrent Liabilities* and *Note 23 Accrued Expenses and Other Current Liabilities*.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	Previous Carrying Value		Fair Value Recognized on Acquisition	
	In U.S. Dollar	In Php <sup>(1)</sup> (in millions)	In U.S. Dollar	In Php <sup>(1)</sup>
<b>Assets:</b>				
Property, plant and equipment		8		8
Goodwill (Note 14)	10	494	10	463
Intangible assets (Note 14)			2	73
Deferred income tax assets net	1	10		3
Cash and cash equivalents	1	26	1	26
Trade and other receivables	1	59	1	53
Other current assets				15
	13	597	14	641
<b>Liabilities:</b>				
Accounts payable				4
Accrued expenses and other current liabilities	1	27	1	24
Deferred income tax liabilities net			1	26
Other current liabilities				8
	1	27	2	62
Net assets acquired	12	570	12	579

<sup>(1)</sup> *Converted to Philippine Peso using the exchange rate at the time of purchase of Php47.42 to US\$1.00.*

The net assets acquired in the December 31, 2009 consolidated financial statements were based on a provisional assessment of fair value, while the PLDT Group sought an independent valuation on the value of Laguna Medical's assets. The results of this valuation had not been received as at the date the 2009 consolidated financial statements were approved for issuance by the Board of Directors.

The valuation of Laguna Medical's assets was completed in 2010 and the fair value of intangible assets were determined to be Php73 million. The fair value of goodwill decreased by Php31 million to Php463 million as a result of adjustments in the fair values of intangible assets and certain assets and liabilities as presented in the above table. The 2009 comparative information was not restated to reflect these adjustments and instead these adjustments were

applied directly to the respective assets and liabilities accounts in 2010.

The goodwill of Php463 million pertains to the fair value of expansion of the healthcare product offering of SPi and other unidentified intangible assets that did not qualify as intangible assets under IAS 38.

The intangible assets pertaining to Laguna Medical's customer relationship and internally developed software were determined at Php50 million and Php23 million, respectively, with estimated useful lives of eight and three years, respectively. Intangible assets were valued by an independent appraiser based on multiple excess earnings approach using weighted average cost of capital of 10.7%.

The fair value of trade and other receivables, which is equal to gross amount, amounted to Php53.4 million. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

Our consolidated revenues would have increased by Php237 million while our consolidated net income would have increased by Php8 million for the year ended December 31, 2009 had the acquisition of Laguna Medical actually taken place on January 1, 2009. Total revenues and net income of Laguna Medical included in our 2009

**Table of Contents**

consolidated income statement from August 31, 2009 to December 31, 2009 amounted to Php103 million and Php0.3 million, respectively.

*Smart s Acquisition of PDSI*

In May and October 2009, Smart acquired an aggregate of approximately 84 million shares, representing the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. The acquisition was completed on two dates: (a) the first closing took place on May 14, 2009 and involved the acquisition of approximately 34 million shares representing 40% of the issued and outstanding shares of PDSI for a consideration of Php632 million; and (b) the second closing took place on October 2, 2009 and involved the acquisition of the remaining approximately 50 million shares representing 60% of the issued and outstanding shares of PDSI for a consideration of Php937 million.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	Previous Carrying Value	Fair Value Recognized on Acquisition  (in million pesos)
<b>Assets:</b>		
Property, plant and equipment	42	115
Goodwill (Note 14)	1,597	1,530
Intangible assets (Note 14)		23
Prepayments	10	10
Advances and refundable deposits net of current portion	8	8
Cash and cash equivalents	12	12
Trade and other receivables	42	42
Current portion of advances and refundable deposits	6	6
	1,717	1,746
<b>Liabilities:</b>		
Deferred income tax liabilities net		29
Accounts payable	30	30
Accrued expenses and other current liabilities	116	116
Income tax payable	2	2
	148	177
Net assets acquired	1,569	1,569

The net assets acquired in the December 31, 2009 consolidated financial statements were based on a provisional assessment of fair value, while the PLDT Group sought an independent valuation on the value of PDSI s assets. The results of this valuation had not been received as at the date the 2009 consolidated financial statements were approved for issuance by the Board of Directors.

The valuation of PDSI s assets was completed in 2010 and the fair value of property, plant and equipment and intangible assets were determined to be Php115 million and Php23 million, respectively. The fair value of goodwill decreased by Php67 million to Php1,530 million as a result of adjustments in the fair values of property, plant and equipment, intangible assets and deferred income tax liabilities net. The 2009 comparative information was not restated to reflect these adjustments and instead these adjustments were applied directly to the respective assets and

liabilities accounts in 2010.

The goodwill of Php1,530 million pertains to the fair value of the synergies arising from the acquisition of PDSI by Smart. PDSI complements SBI's broadband internet service.

Our consolidated revenues would have increased by Php241 million while our consolidated net income would have decreased by Php9 million for the year ended December 31, 2009 had the acquisition of PDSI actually taken place on January 1, 2009. Total revenues and net losses of PDSI included in our 2009 consolidated net income from October 2, 2009 to December 31, 2009 amounted to Php80 million and Php13 million, respectively.

*Smart's Acquisition of Chikka*

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka for a total consideration of US\$13.5 million, or Php629 million, of which US\$12.1

**Table of Contents**

million, or Php564 million, was paid in cash on December 18, 2009 and the balance of US\$1.4 million, or Php65 million, was paid on September 27, 2010 upon completion of the post closing provisions. See *Note 23 Accrued Expenses and Other Current Liabilities*.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition, as described below:

	Previous Carrying Value	Fair Value Recognized on Acquisition (in million pesos)
<b>Assets:</b>		
Property, plant and equipment	8	8
Goodwill (Note 14)	561	469
Intangible assets (Note 14)	27	159
Advances and refundable deposits net of current portion	1	1
Cash and cash equivalents	89	89
Trade and other receivables	51	51
Current portion of advances and refundable deposits	19	19
	756	796
<b>Liabilities:</b>		
Deferred income tax liabilities net		40
Accounts payable	8	8
Accrued expenses and other current liabilities	105	105
Accrued retirement benefits	12	12
Income tax payable	2	2
	127	167
Net assets acquired	629	629

The net assets acquired in the December 31, 2009 consolidated financial statements were based on a provisional assessment of fair value, while the PLDT Group sought an independent valuation on the value of Chikka's assets. The results of this valuation had not been received as at the date the 2009 consolidated financial statements were approved for issuance by the Board of Directors.

The valuation of Chikka's assets was completed in 2010 and the fair value of intangible assets for technology tradename, patents and trademarks were determined to be Php119 million. The fair value of goodwill decreased by Php92 million to Php469 million as a result of adjustments in the fair values of intangible assets and deferred income tax liabilities net. The 2009 comparative information was not restated to reflect these adjustments and instead these adjustments were applied directly to the respective assets and liabilities accounts in 2010.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php51 million and Php20 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php67 million and Php20 million, respectively. The amount of allowance for impairment for uncollectible amount for trade and other receivables amounted to Php16 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The goodwill of Php469 million pertains to the fair value of the synergies arising from the acquisition of Chikka by Smart. As a content provider, Chikka enhances Smart's revenue stream from VAS.

Our consolidated revenues would have increased by Php189 million while our consolidated net income would have decreased by Php6 million for the year ended December 31, 2009 had the acquisition of Chikka actually taken place on January 1, 2009. The results of operation of Chikka from December 18, 2009 to December 31, 2009 were not included in our 2009 consolidated income statement since it was not material.



**Table of Contents****14. Goodwill and Intangible Assets**

Movements in goodwill and intangible assets for the years ended December 31, 2010 and 2009 are as follows:

	Intangible Assets					Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Customer List	Spectrum	Licenses	Technology Application	Trademark			
<b>December 31, 2010</b>								
Costs:								
Balance at beginning of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Additions	19		19	4	1	43		43
Translation and other adjustments (Note 13)	(42)		(78)	22	131	33	(468)	(435)
Balance at end of year	1,632	1,205	554	993	159	4,543	14,733	19,276
Accumulated amortization and impairment:								
Balance at beginning of year	995	428	448	964		2,835	3,809	6,644
Impairment during the year (Notes 4 and 5)	56		18			74	1,169	1,243
Amortization during the year (Note 3)	219	81	36	11	41	388		388
Translation and other adjustments (Note 13)	(58)		(76)	2		(132)	(352)	(484)
Balance at end of year	1,212	509	426	977	41	3,165	4,626	7,791
<b>Net balance at end of year (Notes 3 and 28)</b>	<b>420</b>	<b>696</b>	<b>128</b>	<b>16</b>	<b>118</b>	<b>1,378</b>	<b>10,107</b>	<b>11,485</b>
Estimated useful lives (in years)	1 8	15	2 18	3 5	1 10			
Remaining useful lives (in years)	1 7	9	1 12	2 4	9			
<b>December 31, 2009</b>								
Costs:								
Balance at beginning of year	1,696	1,205	370	894		4,165	12,289	16,454
			221		27	248	3,013	3,261

Business combinations (Notes 3, 13 and 21)								
Translation and other adjustments (Note 13)	(41)		22	73		54	(101)	(47)
Balance at end of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Accumulated amortization and impairment:								
Balance at beginning of year	794	348	203	860		2,205	3,799	6,004
Impairment during the year			213	73		286	93	379
Amortization during the year (Note 3)	220	80	37	31		368		368
Translation and other adjustments	(19)		(5)			(24)	(83)	(107)
Balance at end of year	995	428	448	964		2,835	3,809	6,644
<b>Net balance at end of year</b> (Notes 3 and 28)	<b>660</b>	<b>777</b>	<b>165</b>	<b>3</b>	<b>27</b>	<b>1,632</b>	<b>11,392</b>	<b>13,024</b>
Estimated useful lives (in years)	1 7	15	3 18	4 5		6		
Remaining useful lives (in years)	1 4	10	2 13	1		6		

### **Intangible Assets**

#### *Intangible Assets from Acquisition of SPi, Level Up! and CyMed, Inc., or CyMed*

In 2008, ePLDT recognized impairment in its intangible assets in SPi and Level Up! amounting to Php123 million and Php5 million, respectively, representing write-downs to recoverable amount using the value in use approach. The impairment resulted from a projected decline in revenues related to certain customer relationship and license agreements. The value in use was based on the discounted cash flow projection using the most recent financial forecast approved by management. In 2009, ePLDT performed an impairment testing in its intangible assets from the acquisition of SPi and Level Up! and no additional impairment charge was recognized.

In 2010, ePLDT recognized an impairment of its remaining intangible assets from the acquisition of SPi and CyMed amounting to Php19 million and Php38 million, respectively, pertaining to the medical transcription business of SPi, since the carrying amount of the individual assets from SPi and CyMed were deemed unrecoverable. Further, ePLDT also recognized an impairment charge of Php4 million representing all remaining intangible assets from the acquisition of Level Up!.

**Table of Contents***Intangible Assets from Acquisition of BOW*

In 2009, Smart recognized intangible assets of Php221 million for licenses and fees in BOW for the perpetual and exclusive worldwide maritime licenses granted by Altobridge, Limited to BOW to facilitate the successful communication between GSM and satellite communication networks. Smart recognized an impairment charge of Php213 million, net of amortization of Php8 million, for the year ended December 31, 2009, reducing the amount of intangible assets in BOW to zero as at December 31, 2009. The impairment loss resulted from the annual impairment test done on the Company's assets. See *Note 9 Property, Plant and Equipment* for the basis of impairment valuation.

*Intangible Assets from Acquisition of Chikka and PDSI*

In 2009, Smart recognized intangible assets of Php27 million in Chikka for patents and trademark relating to Chikka's internet-based instant messaging facility.

In 2010, Smart recognized intangible assets of Php92 million for technology and tradename and Php16 million for technology and customer base acquired in the purchase of Chikka Group and PDSI, respectively, based on the result of the valuation done by an independent appraiser. See *Note 13 Business Combinations and Acquisition of Non-Controlling Interests*.

The consolidated future amortization of intangible assets as at December 31, 2010 is as follows:

<b>Year</b>	(in million pesos)
2011	274
2012	260
2013	208
2014	123
2015 and onwards	513
Balance at end of year	1,378

*Impairment Testing of Goodwill**Goodwill from Acquisition of SBI, CURE, Airborne Access, PDSI and Chikka*

The organizational structure of Smart and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at December 31, 2010, Smart's goodwill comprised of goodwill resulting from Smart's acquisition of SBI in 2004, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access from ePLDT in 2008 and Smart's acquisition of PDSI and Chikka in 2009. The test for recoverability of Smart's goodwill was applied to the wireless asset group, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among Smart, CURE, SBI and PDSI through subscribers availing themselves of their respective cellular (for Smart and CURE) and wireless broadband (for SBI and PDSI) services, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common-used network/platform. In the case of CURE, it provides cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. With the common use of wireless assets of Smart in providing 3G cellular and wireless broadband access, the lowest level of assets of CURE, SBI and PDSI for which cash flows are clearly identifiable from other groups of assets is Smart's wireless business segment. On the other hand, Chikka's mobile applications and content are developed mainly for the cellular subscribers of Smart and CURE.

The recoverable amount of this segment had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a five-year period from 2011 to 2015. The pre-tax discount rate applied to cash flow projections is 8.8% and cash flows

**Table of Contents**

beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

*Goodwill from Acquisition of BOW*

In December 2009, SCH recognized full impairment loss of Php45 million on goodwill resulting from its acquisition of BOW. The impairment loss resulted from the annual impairment test on the assets. See *Note 9 Property, Plant and Equipment* for the basis of impairment valuation.

*Goodwill from Acquisition of SPi and its Subsidiaries, CyMed, Springfield Service Corporation, or Springfield, and Laguna Medical*

The goodwill acquired through the SPi, CyMed, Springfield and Laguna Medical transactions was allocated for impairment testing to each of the cash-generating units of those businesses, namely medical transcription, litigation, content solutions, medical billing and medical coding, respectively. The recoverable amount of goodwill was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The pre-tax discount rate of 15% was applied based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the assets or business of such cash-generating units. Since the carrying amount of the individual assets exceeded the recoverable amount, ePLDT recognized an impairment losses of Php905 million and Php1,815 million for the years ended December 31, 2010 and 2008, respectively, pertaining to the medical transcription business of SPi and CyMed and medical transcription and litigation businesses of SPi, respectively. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of SPi and its Subsidiaries, CyMed, Springfield and Laguna Medical, and no additional impairment charge was recognized.

*Goodwill from Acquisition of Level Up!*

Goodwill acquired from our acquisition in 2006 of a 60% equity interest in Level Up! was tested for impairment where the recoverable amount was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors of ePLDT. The pre-tax discount rate of 22% was applied based on the weighted average cost of capital adjusted for specific risks associated with the assets or business. ePLDT recognized an impairment charge of Php48 million and Php203 million for the years ended December 31, 2010 and 2008, respectively, pertaining to the goodwill from acquisition of Level Up!. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of Level Up! and no additional impairment charge was recognized.

*Goodwill from Acquisition of Digital Paradise*

Goodwill acquired from the acquisition of Digital Paradise was tested for impairment based on the recoverable amount of the long lived assets where recoverable amount was determined based on the cash flow projections on the most recent financial budgets and forecasts approved by the Board of Directors. The pre-tax discount rate applied was 22% which was based on the weighted average cost of capital. ePLDT recognized full impairment provision of Php85 million as at December 31, 2009.

*Goodwill from Acquisition of BayanTrade*

Goodwill acquired from the acquisition of BayanTrade was tested for impairment based on the recoverable amount of the long lived assets, determined based on the cash flow projections on the most recent financial budgets and forecasts approved by the Board of Directors. The pre-tax discount rate applied was 22%, which was based on the weighted average cost of capital. ePLDT recognized full impairment provision of Php216 million as at December 31, 2010.

**Table of Contents****15. Cash and Cash Equivalents**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Cash on hand and in banks (Note 28)	<b>2,906</b>	3,300
Temporary cash investments (Note 28)	<b>33,772</b>	35,019
	<b>36,678</b>	38,319

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,081 million, Php1,185 million and Php1,523 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**16. Trade and Other Receivables**

As at December 31, 2010 and 2009, this account consists of receivables from:

	<b>2010</b>	2009
	(in million pesos)	
Retail subscribers (Note 28)	<b>8,917</b>	8,026
Corporate subscribers (Notes 24 and 28)	<b>7,998</b>	9,106
Foreign administrations (Note 28)	<b>4,479</b>	4,353
Domestic carriers (Notes 24 and 28)	<b>1,591</b>	1,267
Dealers, agents and others (Notes 18, 24 and 28)	<b>5,273</b>	3,927
	<b>28,258</b>	26,679
Less allowance for doubtful accounts (Notes 3, 5 and 28)	<b>11,830</b>	11,950
(Notes 3, 5 and 28)	<b>16,428</b>	14,729

Movements in the allowance for doubtful accounts for the years ended December 31, 2010 and 2009 are as follows:

	<b>Total</b>	<b>Corporate Subscribers</b>	<b>Retail Subscribers</b>	<b>Foreign Administrations</b>	<b>Domestic Carriers</b>	<b>Dealers, Agents and Others</b>
	(in million pesos)					
<b>December 31, 2010</b>						
Balance at beginning of year	11,950	6,677	4,480	289	83	421
Provisions for the year (Notes 3, 4 and 5)	834	152	493		64	125
Write-offs	(932)	(562)	(284)	(5)		(81)
Translation and other adjustments	(22)	(311)	356	(126)	(9)	68

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Balance at end of year	11,830	5,956	5,045	158	138	533
Individual impairment	8,861	5,413	2,745	158	138	407
Collective impairment	2,969	543	2,300			126
	11,830	5,956	5,045	158	138	533
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,861	5,413	2,745	158	138	407
<b>December 31, 2009</b>						
Balance at beginning of year	12,336	6,323	5,089	439	174	311
Provisions for the year (Notes 3, 4 and 5)	2,335	670	1,512	18	35	100
Business combinations (Note 13)	513	36	454			23
Write-offs	(22)	(1,178)	(1,657)	(216)	(157)	(4)
Translation and other adjustments	(3,212)	826	(918)	48	31	(9)
Balance at end of year	11,950	6,677	4,480	289	83	421
Individual impairment	9,624	6,256	2,595	289	83	401
Collective impairment	2,326	421	1,885			20
	11,950	6,677	4,480	289	83	421
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,624	6,256	2,595	289	83	401

**Table of Contents**

Receivables from foreign administrations and domestic carriers represent receivables arising from interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

**17. Inventories and Supplies**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Spare parts and supplies:		
At net realizable value	<b>1,152</b>	982
At cost	<b>2,163</b>	1,998
Terminal and cellular phone units:		
At net realizable value	<b>737</b>	652
At cost	<b>918</b>	981
Others:		
At net realizable value	<b>330</b>	531
At cost	<b>333</b>	534
 Total inventories and supplies at the lower of cost or net realizable value (Notes 3, 4, 5 and 28)	 <b>2,219</b>	 2,165

The cost of inventories and supplies recognized as expense for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
	(in million pesos)		
Cost of sales	<b>3,517</b>	4,714	4,380
Repairs and maintenance	<b>357</b>	429	549
Write-down of inventories and supplies (Notes 3, 4 and 5)	<b>108</b>	389	242
	<b>3,982</b>	5,532	5,171

**18. Prepayments**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Prepaid taxes	<b>7,476</b>	7,768
Prepaid benefit costs (Notes 3 and 25)	<b>5,333</b>	5,414
Prepaid selling and promotions	<b>1,011</b>	102
Prepaid insurance (Note 24)	<b>122</b>	109
Prepaid rent net (Notes 3 and 5)	<b>53</b>	208
Prepaid fees and licenses	<b>40</b>	44
Other prepayments	<b>62</b>	116
	<b>14,097</b>	13,761
Less current portion of prepayments (Note 28)	<b>5,418</b>	5,098



Noncurrent portion of prepayments (Note 28)	<b>8,679</b>	8,663
---	--------------	-------

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations less unrecognized net actuarial gains or losses recognized in our consolidated statements of financial position. See *Note 25*

*Share-based Payments and Employee Benefits.*

*Agreement between PLDT and Smart with ABC Development Corporation (TV5)*

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of PLDT Beneficial Trust Fund through its investee company, MediaQuest Holdings, Inc., for the airing and telecast of

235

---

**Table of Contents**

advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. Total prepayment under the advertising placement agreements amounted to Php893 million as at December 31, 2010.

*Option to Purchase Series C Preferred Shares of ProtoStar*

On September 16, 2008, PLDT signed an option to purchase Series C Preferred Shares of ProtoStar pursuant to which PLDT was entitled to subscribe for and purchase 39.7 million Series C Preferred Shares at the exercise price of US\$0.6925 per share during the exercise period. PLDT paid US\$27.5 million to ProtoStar as a deposit to pay the exercise price if PLDT exercised the option or, if not exercised, such payment would be applied as payment of Priority Deposit to ProtoStar under the Space Segment Services Agreement between PLDT and ProtoStar. On May 15, 2009, PLDT formally advised ProtoStar that it will not exercise its option to purchase ProtoStar's Series C Preferred Shares and that it has elected to apply the US\$27.5 million it had paid for such option as Priority Deposit under the Space Segment Services Agreement, which amount will be deemed as full payment of the space segment services upon Commencement Date under said agreement.

On July 29, 2009, ProtoStar and its affiliates ProtoStar Satellite Systems, Inc., ProtoStar I Ltd., ProtoStar II Ltd., ProtoStar Development Ltd. and ProtoStar Asia Pte. Ltd. each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. An auction of ProtoStar's ProtoStar I satellite was held in October 2009 and of ProtoStar's ProtoStar II satellite in December 2009, the proceeds of which were to be distributed to ProtoStar's secured lenders and the balance, if any, to its unsecured lenders. During the pendency of the proceedings, however, the unsecured creditors challenged the perfection of the secured lenders' security over the satellites. Thereafter, settlement negotiations were commenced among ProtoStar, the secured lenders and the unsecured creditors. The parties reached a settlement, the terms of which are embodied in ProtoStar's Plan of Reorganization. This Plan was confirmed by the bankruptcy court at a hearing held on October 6, 2010 in Delaware. The filing of the bankruptcy case and the eventual sale of the ProtoStar I satellite constitute a breach by ProtoStar of the Space Segment Services Agreement. On this basis, we recognized a full impairment provision of US\$27.5 million, or Php1,304 million, in 2009 with respect to our Priority Deposit to ProtoStar under the Space Segment Services Agreement. On October 22, 2010, PLDT received approximately US\$3.3 million as settlement of its claim and recognized such as Other income in the consolidated income statements. The remaining amount of US\$24.2 million, for which full provision was made in 2009, was permanently written-off in our consolidated statement of financial position.

**19. Equity**

The movements of PLDT's capital account for the years December 31, 2008, 2009 and 2010 are as follows:

	Preferred Stock			Common Stock		
	Php10 par value per share			Php5 par value per share		
	Series A to HH	IV	Total Preferred Stock	Number of Shares	Amount	
	Number of Shares		Amount (in millions)			
<b>Authorized</b>			823	Php 8,230	234	Php 1,170
<b>Issued</b>						
Balances as at January 1, 2008	405	36	441	Php 4,417	188	Php 943
Issuance				1		1
Conversion				(3)	1	3
<b>Balances as at December 31, 2008</b>	<b>405</b>	<b>36</b>	<b>441</b>	<b>Php 4,415</b>	<b>189</b>	<b>Php 947</b>

Balances as at January 1, 2009	405	36	441	Php 4,415	189	Php 947
Issuance				2		
Conversion				(1)		
<b>Balances as at December 31, 2009</b>	<b>405</b>	<b>36</b>	<b>441</b>	<b>Php 4,416</b>	<b>189</b>	<b>Php 947</b>
Balances as at January 1, 2010	405	36	441	Php 4,416	189	Php 947
Issuance	1		1	3		
<b>Balances as at December 31, 2010</b>	<b>406</b>	<b>36</b>	<b>442</b>	<b>Php 4,419</b>	<b>189</b>	<b>Php 947</b>

**Table of Contents*****Preferred Stock***

On January 26, 2010, the Board of Directors designated 100 thousand shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock for issuance from January 1, 2010 to December 31, 2012. There were no issued Series II 10% Cumulative Convertible Preferred Stock as at March 31, 2011.

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to II 10% Cumulative Convertible Preferred Stock earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2010, was Php5.00 per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the subscriber investment plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series A to II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

***Common Stock***

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholder value. This also reinforces initiatives that PLDT has already undertaken such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our earnings per share, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at

December 31, 2010. We had acquired a total of approximately 2.68 million shares of PLDT s

237

---

**Table of Contents**

common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. See *Note 8 Earnings Per Common Share* and *Note 28 Financial Assets and Liabilities*.

**Dividends Declared For The Year Ended December 31, 2010**

Class	Date			Per Share	Amount (in million pesos)
	Approved	Record	Payable		
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	Php1.00	17
	Series DD	January 26, 2010	February 11, 2010		
Series EE	March 26, 2010	April 23, 2010	May 31, 2010	1.00	
Series A, I, R, W, AA and BB	July 7, 2010	August 5, 2010	August 31, 2010	1.00	128
Series B, F, Q, V and Z	August 3, 2010	September 2, 2010	September 30, 2010	1.00	92
Series E, K, O and U	August 31, 2010	September 30, 2010	October 29, 2010	1.00	44
Series C, D, J, T and X	September 28, 2010	October 28, 2010	November 30, 2010	1.00	57
Series G, N, P and S	November 4, 2010	December 2, 2010	December 29, 2010	1.00	26
Series H, L, M and Y	December 7, 2010	January 4, 2011	January 31, 2011	1.00	42
					409
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
Series IV*	January 26, 2010	February 19, 2010	March 15, 2010	Php	12
		May 27, 2010	June 15, 2010		13
Table of Contents					406

	May 13, 2010					
	August 3, 2010	August 18, 2010	September 15, 2010			12
	November 4, 2010	November 19, 2010	December 15, 2010			12
						49
<b>Common Stock</b>						
	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00		14,197
Regular Dividend	August 3, 2010	August 19, 2010	September 21, 2010	78.00		14,570
	March 2, 2010	March 17, 2010	April 20, 2010	65.00		12,142
Special Dividend						40,909
						41,367
Charged to retained earnings						

\* *Dividends were declared based on total amount paid up.*

**Dividends Declared For The Year Ended December 31, 2009**

Class	Approved	Date Record	Payable	Amount Per Share	Total (in million pesos)
<b>Preferred Stock Subject to Mandatory Redemption</b>					
	March 3, 2009	March 19, 2009	April 15, 2009	Php4.675	
Series V	June 9, 2009	June 25, 2009	July 15, 2009	4.675	
	*August 4, 2009	August 22, 2009	September 10, 2009	0.051944 per day	
	March 3, 2009	March 19, 2009	April 15, 2009	US\$0.09925	
Series VI	June 9, 2009	June 25, 2009	July 15, 2009	0.09925	

2009				
August				
25,	September	October 15,		
2009	24, 2009	2009	0.09925	
**November				
3,	November 8,	December 8,		
2009	2009	2009	Php0.001103	
			per day	

Charged to income

**10% Cumulative Convertible Preferred Stock**

	January				
	27,	February 26,	March 31,		
Series CC	2009	2009	2009	Php1.00	17
	January				
	27,	February 13,	February 27,		
Series DD	2009	2009	2009	1.00	3
	March				
	31,	April 30,	May 29,		
Series EE	2009	2009	2009	1.00	
	July				
	7,	August 6,	August 28,		
Series A, I, R, W, AA and BB	2009	2009	2009	1.00	128
	August				
	4,	September 1,	September		
Series B, F, Q, V and Z	2009	2009	30, 2009	1.00	91
	August				
	25,	September	October 30,		
Series E, K, O and U	2009	24, 2009	2009	1.00	44
	September				
	29,	October 29,	November		
Series C, D, J, T and X	2009	2009	26, 2009	1.00	57
	November				
	3,	December 3,	December		
Series G, N, P, and S	2009	2009	29, 2009	1.00	26
	December				
	8,	January 4,	January 29,		
Series H, L, M and Y	2009	2010	2010	1.00	40
					406

**Cumulative Non-convertible Redeemable Preferred Stock**

	January				
	27,	February 20,	March 15,		
Series IV***	2009	2009	2009	Php	12
	May	May 22,	June 15,		
	5,	2009	2009		13

Table of Contents



	2009				
	August	August 19,	September		
	4,	2009	15, 2009		13
	2009				
	November	November	December		
	3,	20, 2009	15, 2009		12
	2009				
					50
<b>Common Stock</b>					
	March	March 18,	April 21,		
	3,	2009	2009		
Regular Dividend	2009			Php70.00	13,124
	August	August 20,	September		
	4,	2009	22, 2009	77.00	14,384
	2009				
	March	March 18,	April 21,		
	3,	2009	2009	60.00	11,250
Special Dividend	2009				
					38,758
Charged to retained earnings					39,214

\* *Only the holders of Series V Convertible Preferred Stock whose shares were originally issued on August 22, 2002 and mandatorily converted on August 23, 2009 are entitled to this final dividend.*

\*\* *Only the holders of Series VI Convertible Preferred Stock whose shares were originally issued on November 8, 2002 and mandatorily converted on November 9, 2009 are entitled to this final dividend.*

\*\*\* *Dividends are declared based on total amount paid up.*

**Table of Contents****Dividends Declared For The Year Ended December 31, 2008**

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total (in million pesos)
<b>Preferred Stock Subject to Mandatory Redemption</b>					
Series V	March 4, 2008	March 20, 2008	April 15, 2008	Php4.675	
	*May 6, 2008	June 4, 2008	June 23, 2008	0.051944 per day	
	June 10, 2008	June 26, 2008	July 15, 2008	4.675	
	August 26, 2008	September 25, 2008	October 15, 2008	4.675	
	December 9, 2008	December 24, 2008	January 15, 2009	4.675	
Series VI	March 4, 2008	March 20, 2008	April 15, 2008	US\$0.09925	2
	*May 6, 2008	June 4, 2008	June 23, 2008	0.001103 per day	1
	June 10, 2008	June 26, 2008	July 15, 2008	0.09925	
	August 26, 2008	September 25, 2008	October 15, 2008	0.09925	
	December 9, 2008	December 24, 2008	January 15, 2009	0.09925	
Charged to income					3
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 29, 2008	February 28, 2008	March 31, 2008	Php1.00	17
Series DD	January 29, 2008	February 15, 2008	February 29, 2008	1.00	3

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

	2008				
	March				
Series EE	25, 2008	April 24, 2008	May 30, 2008	1.00	
	July				
Series A, I, R, W, AA and BB	8, 2008	August 1, 2008	August 29, 2008	1.00	128
	August				
Series B, F, Q, V and Z	5, 2008	September 3, 2008	September 30, 2008	1.00	90
	August				
Series E, K, O and U	26, 2008	September 25, 2008	October 31, 2008	1.00	44
	September				
Series C, D, J, T and X	30, 2008	October 30, 2008	November 28, 2008	1.00	57
	November				
Series G, N, P and S	4, 2008	December 4, 2008	December 29, 2008	1.00	26
	December				
Series H, L, M and Y	9, 2008	January 2, 2009	January 30, 2009	1.00	41
					406
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
	January				
Series IV**	29, 2008	February 22, 2008	March 15, 2008	Php	12
	May				
	6, 2008	May 23, 2008	June 15, 2008		12
	July				
	8, 2008	August 7, 2008	September 15, 2008		13
	November				
	4, 2008	November 21, 2008	December 15, 2008		13
					50
<b>Common Stock</b>					
	March				
Regular Dividend	4, 2008	March 19, 2008	April 21, 2008	Php68.00	12,853
	August				
	5, 2008	August 22, 2008	September 22, 2008	70.00	13,140
Table of Contents					411

	March 4, 2008	March 19, 2008	April 21, 2008	56.00	10,585
Special Dividend					36,578
Charged to retained earnings					37,034

\* Only the holders of Series V and VI Convertible Preferred Stock whose shares were originally issued on June 4, 2001 and mandatorily converted on June 5, 2008 are entitled to these final dividends.

\*\* Dividends are declared based on total amount paid up.

#### Dividends Declared After December 31, 2010

Class	Date			Per Share	Amount  (in million pesos)
	Approved	Record	Payable		
<b>Cumulative Non-convertible Redeemable Preferred Stock</b>					
Series IV*	January 25, 2011	February 18, 2011	March 15, 2011	Php	12
<b>10% Cumulative Convertible Preferred Stock</b>					
Series CC	January 25, 2011	February 24, 2011	March 31, 2011	Php1.00	17
Series DD	January 25, 2011	February 10, 2011	February 28, 2011	1.00	2
Series FF	January 25, 2011	February 10, 2011	February 28, 2011	1.00	
Series GG	January 25, 2011	February 24, 2011	March 31, 2011	1.00	
Series EE	March 29, 2011	April 28, 2011	May 31, 2011	1.00	
Series HH	March 29, 2011	April 28, 2011	May 31, 2011	1.00	
					19

#### Common Stock

	March 1, 2011	March 16, 2011	April 19, 2011	Php78.00	14,567
Regular Dividend					
	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
Special Dividend					
					26,893
					26,924

\* *Dividends were declared based on total amount paid up.*  
239

---

**Table of Contents****20. Interest-bearing Financial Liabilities**

As at December 31, 2010 and 2009, this account consists of the following:

	<b>2010</b>	2009
	(in million pesos)	
<b>Long-term portion of interest-bearing financial liabilities:</b>		
Long-term debt (Notes 4, 5, 9, 23, 26 and 28)	<b>75,879</b>	86,066
Obligations under finance lease (Notes 3, 4, 5, 23, 26 and 28)	<b>9</b>	13
	<b>75,888</b>	86,079
<b>Current portion of interest-bearing financial liabilities:</b>		
Long-term debt maturing within one year (Notes 4, 5, 9, 23, 26 and 28)	<b>13,767</b>	10,384
Obligations under finance lease maturing within one year (Notes 3, 4, 5, 23, 26 and 28)	<b>34</b>	51
Notes payable (Notes 4, 5, 23, 26 and 28)		2,279
	<b>13,801</b>	12,714

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at December 31, 2010 and 2009 are as follows:

	<b>2010</b>	2009
	(in million pesos)	
Long-term debt (Note 28)	<b>2,944</b>	3,858
Obligation under finance lease	<b>1</b>	3
Unamortized debt discount at end of year	<b>2,945</b>	3,861

The following table describes all changes to unamortized debt discount as at December 31, 2010 and 2009.

	<b>2010</b>	2009
	(in million pesos)	
Unamortized debt discount at beginning of year	<b>3,861</b>	4,577
Additions during the year	<b>114</b>	182
Revaluations during the year	<b>(16)</b>	22
Accretion during the year included as part of Financing costs net Accretion on financial liabilities net (Note 5)	<b>(1,014)</b>	(920)
Unamortized debt discount at end of year	<b>2,945</b>	3,861

**Long-term Debt**

As at December 31, 2010 and 2009, long-term debt consists of:

Description	Interest Rates	2010	2009
		(in millions)	
<i>U.S. Dollar Debts:</i>			

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

Export Credit Agencies-Supported Loans:

Finnvera, Plc, or Finnvera	2.99% and US\$ LIBOR + 0.05% to 1.35% in 2010 and US\$ LIBOR + 0.05% to 1.35% in 2009	US\$ 82	Php 3,590	US\$ 58	Php 2,681
Exportkreditnamnden, or EKN	3.79% in 2010 and 2009	14	613	18	860
Kreditanstalt für Wiederaufbau, or KfW	US\$ LIBOR + 0.65% to 2.50% in 2010 and 5.65% and US\$ LIBOR + 0.65% to 2.50% in 2009			31	1,454
Fixed Rate Notes	8.35% to 11.375% in 2010 and 2009	96	4,203	107	4,995
Term Loans:					
Debt Exchange Facility	2.25% in 2010 and 2009	223	9,791	209	9,725
GSM Network Expansion Facilities	4.515% to 4.70% and US\$ LIBOR + 0.42% to 1.85% in 2010 and 4.49% to 4.70% and US\$ LIBOR + 0.42% to 1.85% in 2009				
Others	2.79% + swap rate and US\$ LIBOR + 0.42% to 0.50% in 2010 and 6%; 2.79% + swap	85	3,740	118	5,484

rate and US\$  
LIBOR +  
0.42% to  
0.50% in  
2009

**US\$ 876   Php 38,414**   US\$ 976   Php 45,354

240

---



**Table of Contents**

Description	Interest Rates	2010	2009
		(in millions)	
<i>Philippine Peso Debts:</i>			
Corporate Notes	5.625% to 9.1038% and PDST-F + 1.25% in 2010 and 2009	<b>Php 29,677</b>	Php 24,863
Term Loans:			
Unsecured Term Loans	6.125% to 8.7792% and PDST-F + 0.30% to 1.50% in 2010 and 6.125% to 8.7792% and PDST-F + 0.75% to 1.50% in 2009	<b>21,439</b>	26,088
Secured Term Loans	PDST-F + 1.375% and AUB's prime rate in 2010 and PDST-F + 5.70% + Bank's cost of funds; PDST-F + 1.375% and AUB's prime rate in 2009	<b>116</b>	145
		<b>51,232</b>	51,096
Total long-term debt		<b>89,646</b>	96,450
Less portion maturing within one year (Note 28)		<b>13,767</b>	10,384
Noncurrent portion of long-term (Note 28)		<b>Php 75,879</b>	Php 86,066

*Note: Amounts presented are net of unamortized debt discount and debt issuance costs.*

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2010 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	In U.S. Dollar	In Php	In Php	In Php
			(in millions)	
2011	104	4,535	9,400	13,935
2012	234	10,273	9,127	19,400
2013	60	2,606	8,528	11,134
2014	305	13,375	6,125	19,500
2015 and onwards	239	10,482	18,139	28,621
	<b>942</b>	<b>41,271</b>	<b>51,319</b>	<b>92,590</b>

***U.S. Dollar Debts:***

***Export Credit Agencies-Supported Loans***

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

***Finnvera, Plc, or Finnvera***

On February 11, 2005, Smart signed a refinancing facility with Finnish Export Credit, Plc, as Lender, and ING Bank N.V., as Arranger and Facility Agent under an export credit agency-backed facility in connection with Smart's GSM expansion program. This facility was covered by a guarantee from Finnvera, the Finnish Export Credit Agency, for 100% of the political and commercial risk for the refinancing facility of GSM Phases 5A and 5B. The principal benefit of refinancing the Phase 5 loan was the savings from a lower interest margin on the refinancing facility. The facility was payable in equal semi-annual payments over five years starting

September 1, 2005. The outstanding balance amounted to US\$9.98 million, or Php464 million, net of unamortized discount, as at December 31, 2009 was paid in full on March 1, 2010.

On May 14, 2009, Smart signed a US\$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. The amounts of US\$39 million, or Php1,703 million, and US\$48 million, or Php2,240 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 9, 2009, Smart signed a US\$50 million five-year term loan facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, no amount had been drawn under the facility. The amount of US\$43 million, or Php1,887 million, net of unamortized debt discount,

**Table of Contents**

which was drawn on April 7, 2010, remained outstanding as at December 31, 2010.

*Exportkreditnamnden, or EKN*

On November 25, 2008, Smart signed a US\$22 million five-year term loan facility to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent and subsequently assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN on December 10, 2008. The amounts of US\$8 million, US\$13 million and US\$1 million were drawn on December 15, 2008, August 5, 2009 and September 1, 2009, respectively. This facility is payable semi-annually in ten equal installments commencing six months from December 10, 2008. The outstanding balance under the facility amounted to US\$14 million, or Php613 million, and US\$18 million, or Php860 million, both net of unamortized debt discount, as at December 31, 2010 and 2009, respectively.

*Kreditanstalt für Wiederaufbau, or KfW*

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US\$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. On various dates from 2002 to 2004, we had drawn a total of US\$140 million under this facility. PLDT waived further disbursements under this refinancing facility effective September 1, 2004 and the undrawn portion of US\$9 million was cancelled.

The outstanding balance under the facility amounted to US\$31 million, or Php1,454 million, as at December 31, 2009. Final repayment was made on October 15, 2010 and there are no outstanding amounts remaining under the facility as at December 31, 2010.

*Fixed Rate Notes*

PLDT has the following non-amortizing fixed rate notes outstanding as at December 31, 2010 and 2009:

Principal Amount	Interest Rate	Maturity Date	2010				2009	
			(in millions)					
US\$234,259,000	8.350%	March 6, 2017	US\$ 231	Php 10,149	US\$ 242	Php 11,256		
US\$145,789,000	11.375%	May 15, 2012	144	6,301	143	6,620		
			US\$ 375	Php 16,450	US\$ 385	Php 17,876		

*Term Loans**US\$283 Million Term Loan Facility, or Debt Exchange Facility*

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, the aggregate of PCEV's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid an amount in cash of US\$1.5 million, or Php84 million and issued new debt of

US\$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million.

The outstanding balance of the Facility amounted to US\$223 million, or Php9,791 million, and US\$209 million, or Php9,725 million, both net of unamortized debt discount, as at December 31, 2010 and 2009, respectively. The Facility will be payable in full on June 30, 2014.

*GSM Network Expansion Facilities*

On August 8, 2005, Smart signed a US\$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US\$30 million. The amounts of US\$6 million, or Php263 million, and

**Table of Contents**

US\$12 million, or Php556 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On August 10, 2005, Smart signed a loan facility for its GSM Phase 8 financing in the amount of US\$70 million. The facility was awarded to the Bank of Tokyo Mitsubishi Ltd., Mizuho Corporate Bank Ltd., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers, with Finnish Export Credit, Plc as the Lender. Smart opted to utilize only a total of US\$67 million of which US\$10 million and US\$57 million were drawn on February 15, 2006 and March 13, 2006, respectively. The undrawn balance of US\$3 million was cancelled. The facility is a five-year term loan payable in ten equal semi-annual installments. The amount of US\$15 million, or Php678 million, net of unamortized discount, remained outstanding as at December 31, 2009. The facility was paid in full on September 1, 2010.

On July 31, 2006, Smart signed a U.S. Dollar term loan facility for US\$44.2 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is Finnish Export Credit, Plc with ABN AMRO Bank N.V., Standard Chartered Bank, Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the Lead Arrangers. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on July 15, 2011. The facility was drawn on November 10, 2006 for the full amount of US\$44.2 million. The amounts of US\$9 million, or Php387 million, and US\$18 million, or Php819 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of US\$50 million. The facility is a five-year loan payable in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on October 10, 2012. The facility was drawn on October 10, 2007 for the full amount of US\$50 million. The amounts of US\$22 million, or Php973 million, and US\$33 million, or Php1,547 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 10, 2007, Smart signed a US\$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch as the Original Lender with Standard Chartered Bank (Hong Kong) Ltd. as the Facility Agent. The full amount of the facility was drawn on March 10, 2008. The loan is payable over five years in ten equal semi-annual payments with final repayment on March 11, 2013. The amounts of US\$25 million, or Php1,091 million, and US\$35 million, or Php1,616 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On November 27, 2008, Smart signed a US\$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with Finnish Export Credit, Plc. The facility was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered Bank, Mizuho Corporate Bank Ltd. as the Lead Arrangers. The loan is payable over five years in ten equal semi-annual installments with final repayment on January 23, 2014. The facility was drawn on January 23, 2009 and May 5, 2009 in the amounts of US\$5 million and US\$45 million, respectively. The amounts of US\$35 million, or Php1,516 million, and US\$44 million, or Php2,058 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

*Other Term Loans*

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. Two separate drawings of US\$50 million each was drawn from the facility on March 27, 2008 and April 10, 2008 and is payable over five years in ten equal semi-annual installments with final repayment on March 27, 2013. The amounts of US\$50 million, or Php2,191 million, and US\$70 million, or Php3,250 million, remained outstanding

as at December 31, 2010 and 2009, respectively.

On July 15, 2008, PLDT signed a loan agreement amounting to US\$50 million with the Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US\$15 million and the balance of US\$35 million was drawn on September 30, 2008. This loan is payable in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on July 22, 2013. The amounts of US\$32 million, or Php1,417 million, and US\$44 million, or Php2,048 million, remained outstanding

**Table of Contents**

as at December 31, 2010 and 2009, respectively.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East for a total of US\$19 million, which will mature on various dates from June 30, 2013 to September 30, 2014. The amounts of US\$3 million, or Php132 million, and US\$4 million, or Php186 million, remained outstanding as at December 31, 2010 and 2009, respectively.

***Philippine Peso Debts:*****Corporate Notes*****Php5,000 Million Fixed Rate Corporate Notes***

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes have been used primarily for Smart's capital expenditures for network improvement and expansion. The amounts of Php4,962 million and Php4,968 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

***Php5,000 Million Fixed Rate Corporate Notes***

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart's capital expenditures for network upgrade and expansion. The amounts of Php4,867 million and Php4,907 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

***Php5,000 Million Fixed Rate Corporate Notes***

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amounts of Php4,976 million and Php5,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

***Php3,000 Million Corporate Notes***

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amounts of Php2,997 million and Php2,988 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The Series A1 amounting to Php1,000 million was repaid on January 10, 2011.

***Php7,000 Million Fixed Rate Corporate Notes***

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amounts of Php6,891 million and Php7,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

**Table of Contents**

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility were used to finance capital expenditures and/or to refinance PLDT's loan obligations. The amount of Php2,500 million remained outstanding as at December 31, 2010.

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility was used primarily to finance Smart's capital expenditures for network improvement and expansion. The amount of Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2010.

*Php2,000 Million Fixed Rate Corporate Notes*

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011 and Tranche B amounting to Php1,000 million to be issued in multiple drawdowns of Php250 million each, all of which are payable in full in five years from their respective issue dates. As at March 29, 2011, Php1,500 million has been drawn from this facility.

*Php5,000 Million Fixed Rate Corporate Notes*

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A 5-year notes amounting to Php3,435 million, Series B 7-year notes amounting to Php700 million and Series C ten-year rate notes amounting to Php865 million. Proceeds from the facilities will be used to finance capital expenditures and refinance existing debt obligations which were also used to finance service improvements and expansion programs.

**Term Loans**

*Unsecured Term Loans*

*Php2,500 Million Term Loan Facility*

On August 14, 2006, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company amounting to Php2,500 million to finance the related Phase 9 GSM facility. The facility is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on December 9, 2011. The facility was drawn on December 11, 2006. The amounts of Php555 million and Php1,109 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

*Php400 Million and Php20 Million Refinancing Loans*

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the ten-year note under the Php1,270 million Fixed Rate Corporate Notes which were repaid on June 12, 2007. Both refinancing loans will mature on June 12, 2014. The amounts of Php400 million and Php20 million remained outstanding as at December 31, 2009 were both prepaid in full on December 13, 2010.

*Php2,500 Million Term Loan Facility*

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php2,500 million, which was drawn in full on November 13, 2008. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on November 13, 2013. The amounts of Php1,870 million and Php2,492 million, both net of unamortized debt discount, remained



**Table of Contents**

outstanding as at December 31, 2010 and 2009, respectively.

*Php2,400 Million Term Loan Facility*

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The amounts of Php1,533 million and Php2,044 million remained outstanding as at December 31, 2010 and 2009, respectively.

*Php3,000 Million Term Loan Facility*

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The amounts of Php2,000 million and Php2,667 million remained outstanding as at December 31, 2010 and 2009, respectively.

*Php2,000 Million Term Loan Facility*

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million and the balance of Php1,500 million was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on December 19, 2013. The amounts of Php1,412 million and Php1,882 million remained outstanding as at December 31, 2010 and 2009, respectively.

*Php1,000 Million Term Loan Facility*

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The amount of Php996 million, net of unamortized debt discount, remained outstanding as at December 31, 2009 was repaid on October 27, 2010.

*Php2,500 Million Term Loan Facility*

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at December 31, 2010 and 2009.

*Php1,500 Million Term Loan Facility*

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures which was fully drawn on May 20, 2009. The facility is a three-year loan payable in full upon maturity on May 20, 2012. The amounts of Php1,494 million and Php1,491 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

**Table of Contents***Php1,000 Million Term Loan Facility*

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amounts of Php997 million and Php996 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The debt was paid in full on January 3, 2011.

*Php1,000 Million Term Loan Facility*

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full upon maturity on July 2, 2016. The amounts of Php996 million and Php995 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The debt was paid in full on January 3, 2011.

*Php2,500 Million Term Loan Facility*

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at December 31, 2010 and 2009.

*Php1,500 Million Term Loan Facility*

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments commencing on September 15, 2010 with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009. The amounts of Php1,324 million and Php1,500 million remained outstanding as at December 31, 2010 and 2009, respectively.

*Php500 Million Term Loan Facility*

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at December 31, 2010 and 2009.

*Php1,000 Million Term Loan Facility*

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The amounts of Php935 million and Php996 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

*Php2,000 Million Term Loan Facility*

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php1,882 million and Php2,000 million remained outstanding as at

**Table of Contents**

December 31, 2010 and 2009, respectively.

*Php1,000 Million Term Loan Facility*

On November 23, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php1,000 million to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php941 million and Php1,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

*Php1,500 Million Term Loan Facility*

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

*Php2,000 Million Term Loan Facility*

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

*Secured Term Loans**Php150 Million Term Loan Facility*

On June 7, 2007, BayanTrade obtained a medium term loan facility with Bank of the Philippine Islands amounting to Php150 million, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. BayanTrade is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. BayanTrade and the bank has agreed to the following terms: (a) pledge of BayanTrade's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of BayanTrade. The outstanding principal balance of the loan was Php113 million and Php139 million as at December 31, 2010 and 2009, respectively.

*Php8 Million Term Loan Facility*

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installments of Php673 thousand starting June 30, 2009 and every quarter thereafter. This loan has a floating interest rate payable every 30 days starting April 30, 2009. The loan is secured by the equipment where the proceeds of the loan were used. The amounts of Php3 million and Php6 million remained outstanding as at December 31, 2010 and 2009, respectively.

**Notes Payable**

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and were fully paid on April 28, 2010.

**Table of Contents**

SPi had an outstanding balance of short-term notes of US\$6 million, or Php279 million, as at December 31, 2009, which matured on various dates from April 26, 2010 to June 4, 2010.

**Debt Covenants**

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with Philippine Financial Reporting Standards, or PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 43% of PLDT's total consolidated debts as at December 31, 2010 were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; (e) merging or consolidating with any other company; (f) entering into transactions with stockholders and affiliates; and (g) entering into sale and leaseback transactions.

Further, certain of PLDT's debt instruments contain provisions wherein PLDT may be required to repurchase or prepay certain indebtedness in case of a change in control of PLDT.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement.

These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair guarantors' ability to perform their obligations under its loan agreements.

As at December 31, 2010, we were in compliance with all of our debt covenants.

**Table of Contents****Obligations Under Finance Lease**

The consolidated future minimum payments for finance leases as at December 31, 2010 are as follows:

Year	(in million pesos)
Within one year	35
After one year but not more than five years	9
Total minimum finance lease payments (Note 26)	44
Less amount representing unamortized interest	1
Present value of net minimum finance lease payments (Notes 3 and 28)	43
Less obligations under finance lease maturing within one year (Notes 9 and 28)	34
Long-term portion of obligations under finance lease (Notes 9 and 28)	9

*Municipal Telephone Projects*

PCEV has an existing finance lease agreement for the Palawan Telecommunications System of the Municipal Telephone Project Office, or MTPO, with the Department of Transportation and Communications, or DOTC. Presently, the 18 public calling office stations that were put up pursuant to the MTPO Contract are no longer working. The last payment by PCEV to the DOTC was in July 2000 and no payments have been made since then. PCEV made several attempts to pre-terminate the MTPO Contract in letters to the DOTC where PCEV also manifested its willingness to discuss mutually beneficial compromise agreements for the pre-termination.

The DOTC denied PCEV's petition and reiterated a provision in the MTPO Contract that the pre-termination will result in the imposition of sanctions in the form of liquidated damages not exceeding Php23 million.

PCEV maintains that it had pre-terminated the MTPO Contract as early as 2003, and that the issue of PCEV's pre-termination of the MTPO Contract be referred for arbitrations in accordance with the provisions of the MTPO Contract.

On May 8, 2009, PCEV filed with the Philippine Dispute Resolution Center, Inc., or PDRCI, a Request for Arbitration against the DOTC for the PDRCI to commence the formation of the tribunal and such other procedures required under the PDRCI rules. In the Request for Arbitration, PCEV prayed for the following: (1) as interim relief: ordering the DOTC to cease and desist from enforcing collection and charging additional interests and penalties against PCEV pending the resolution of the arbitration proceedings; and (2) as final relief: (a) ordering the suspension of the MTPO Contract; (b) ordering the termination of the MTPO Contract as at March 20, 2003 and holding PCEV free from any liability for non-performance of the obligations thereunder from March 20, 2003; and (c) ordering the DOTC to pay PCEV attorney's fees and the expenses and cost of arbitration.

Last April 13, 2010, the Arbitral Tribunal issued a Final Award for the arbitration case. In the Disposition portion of the Final Award, the Arbitral Tribunal declared valid and justified PCEV's suspension of the MTPO contract as at March 20, 2003 on the basis of Section 9.3 (Force Majeure) of the MTPO contract, thereby holding PCEV free from liquidated damages for non-performance of the obligations thereunder. PCEV, however, was ordered to pay the DOTC the unpaid annual lease rentals after September 2000 to January 14, 2003 in the amount of

Php5.2 million as well as interest and penalties of Php2 million for non-payment of such rentals. Further, PCEV was declared as entitled to the automatic transfer of the ownership of the facilities as provided in Section 7.8 of the MTPO contract. Accordingly, PCEV shall pay DOTC 50% of the Net Present Value of the unpaid lease up to 30 years in the amount of Php21.3 million for the facilities.

The total amount to be paid by PCEV to DOTC is Php28.5 million. As at December 31, 2010, PCEV already advanced Php1 million to DOTC for arbitration expenses and site inspection costs. The remaining balance of Php27.5 million will be paid in two parts: (1) Php26.1 million shall be released directly to DOTC; and (2) Php1.4 million shall be remitted to the Bureau of Treasury to be recorded under Fund Code 152, Special Account of the General Fund for the Office of the Solicitor General.

On April 30, 2010, PCEV filed a Petition for Confirmation of the Final Award with the Regional Trial Court, or RTC, of the City of Mandaluyong. In a Manifestation and Motion filed by the DOTC in the same court, the DOTC joined PCEV in the latter's Petition for Confirmation of the Final Award. In a July 5, 2010 Decision, Branch 212 of the RTC of the City of Mandaluyong, finding the Final Award to be not contrary to law, morals,

**Table of Contents**

good customs and public policy, confirmed the Final Award. PCEV is now in the process of discussing with DOTC the finalization of an agreement for the transfer of the facilities to PCEV and the payment of the amounts due, as stated in the Final Award.

*Other Long-term Finance Lease Obligations*

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and ePLDT have finance lease obligations in the aggregate amounts of Php18 million and Php24 million as at December 31, 2010 and 2009, respectively, in respect of office equipment. See *Note 9 Property, Plant and Equipment*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

**21. Deferred Credits and Other Noncurrent Liabilities**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Accrual of capital expenditures under long-term financing	<b>12,040</b>	11,966
Provision for asset retirement obligations (Notes 3 and 9)	<b>1,344</b>	1,204
Unearned revenues (Note 23)	<b>114</b>	66
Contingent consideration for business acquisitions net of current portion (Notes 13, 14 and 23)		1,193
Others	<b>69</b>	9
	<b>13,567</b>	14,438

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2010 and 2009:

	<b>2010</b>	2009
	(in million pesos)	
Provision for asset retirement obligations at beginning of year	<b>1,204</b>	1,100
Accretion expenses for the year (Note 5)	<b>97</b>	94
Additional liability recognized during the year (Note 29)	<b>49</b>	17
Settlement of obligations	<b>(6)</b>	(7)
Provision for asset retirement obligations at end of year (Note 3)	<b>1,344</b>	1,204

**22. Accounts Payable**

As at December 31, 2010 and 2009, this account consists of:

<b>2010</b>	2009
-------------	------



Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

	(in million pesos)	
Suppliers and contractors (Notes 26 and 28)	<b>20,957</b>	14,975
Taxes (Notes 27 and 28)	<b>2,114</b>	1,894
Carriers (Notes 26 and 28)	<b>1,866</b>	1,937
Related parties (Notes 24, 26 and 28)	<b>244</b>	233
Others	<b>623</b>	562
	<b>25,804</b>	19,601

251

---

**Table of Contents****23. Accrued Expenses and Other Current Liabilities**

As at December 31, 2010 and 2009, this account consists of:

	<b>2010</b>	2009
	(in million pesos)	
Accrued utilities and related expenses (Notes 24, 26 and 28)	<b>19,941</b>	17,549
Unearned revenues (Note 21)	<b>4,698</b>	4,588
Accrued employee benefits (Notes 3, 25, 26 and 28)	<b>3,853</b>	8,074
Accrued taxes and related expenses (Notes 26 and 27)	<b>2,236</b>	1,941
Current portion of contingent consideration for business acquisitions (Notes 13, 14 and 21)	<b>1,632</b>	14
Accrued interests and other related costs (Notes 20, 26 and 28)	<b>1,028</b>	1,167
Liability arising from purchase of investment (Notes 10, 13 and 28)		65
Others	<b>2,571</b>	2,048
	<b>35,959</b>	35,446

Accrued utilities and related expenses pertain to cost incurred for repairs and maintenance (mostly pertaining to electricity and water consumption), selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

*Contingent Consideration for Business Acquisitions*

Contingent consideration for business acquisitions were recognized in relation to SPi's acquisition cost of Springfield and Laguna Medical on April 12, 2007 and August 31, 2009, respectively. See *Note 13 Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 Goodwill and Intangible Assets*.

SPi acquired 100% of Springfield plus contingent consideration with fair value at acquisition date of US\$18 million, or Php894 million. The adjusted fair value of contingent consideration, as revised after effecting adjustments on forecasted earn-out and accretion, amounted to US\$35.3 million, or Php1,547 million, and US\$20.5 million, or Php951 million, as at December 31, 2010 and 2009, respectively.

SPi acquired 80% of Laguna Medical with a mandatory Put-Call option in respect of the remaining 20% of the outstanding common stock of Laguna Medical. The estimated fair value of the contingent consideration from the mandatory Put-Call option at the acquisition date amounted to US\$5.4 million, or Php257 million. The adjusted fair value of contingent consideration after accretion amounted to US\$1.9 million, or Php85 million, and US\$5.5 million, or Php256 million, as at December 31, 2010 and 2009, respectively.

Movements in contingent consideration for business acquisitions for the years ended December 31, 2010 and 2009 are as follows:

<b>2010</b>		2009	
<b>In</b>		<b>In</b>	
<b>U.S.</b>		<b>U.S.</b>	
<b>Dollar</b>	<b>In Php</b>	<b>Dollar</b>	<b>In Php</b>

Edgar Filing: PHILIPPINE LONG DISTANCE TELEPHONE CO - Form 20-F

		(in millions)		
Balance at beginning of year	<b>26</b>	<b>1,207</b>	15	720
Business combinations (Note 13)	<b>8</b>	<b>344</b>	8	389
Accretion for the year	<b>3</b>	<b>163</b>	3	142
Payments		<b>(11)</b>		(13)
Translation		<b>(71)</b>		(31)
Balance at end of year	<b>37</b>	<b>1,632</b>	26	1,207
Less current portion of contingent consideration for business acquisitions	<b>37</b>	<b>1,632</b>		14
Contingent consideration for business acquisitions net of current portion (Note 21)			26	1,193

252

---

**Table of Contents****24. Related Party Transactions***a. Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998 (as amended, the Original ATPA ), PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time (the Minimum Air Time Purchase Obligation ) annually over ten years commencing on January 1, 2002 (the Minimum Purchase Period ), the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period (the Supplemental Air Time Purchase Obligation ).

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks (the Amended ATPA ). Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT (the Amended Minimum Air Time Purchase Obligation ) to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA amounted to Php122 million, Php158 million and Php168 million for the years ended December 31, 2010, 2009 and 2008, respectively. Under the Amended ATPA, the outstanding obligations of PLDT amounted to Php140 million and Php114 million as at December 31, 2010 and 2009, respectively. See *Note 5 Income and Expenses*.

*b. Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to Php2,438 million and Php911 million for the year ended December 31, 2010 and for the period from July 14, 2009 (the date Meralco became an associate of PCEV) to December 31, 2009, respectively. Under these agreements, the outstanding utilities payable amounted to Php183 million and Php188 million as at December 31, 2010 and 2009, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts amounted to Php199 million and Php67 million for the year ended December 31, 2010 and for the period from July 14, 2009 to December 31, 2009, respectively. Under these agreements, the outstanding obligations of PLDT amounted to Php111 million and Php135 million as at December 31, 2010 and 2009, respectively.

See also *Note 10 Investments in Associates and Joint Ventures* for additional transactions involving Meralco.

*c. Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 are as follows:

253

---

**Table of Contents**

1. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DoCoMo*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DoCoMo, the FP Parties, NTT Communications and NTT DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DoCoMo, including:

certain contractual veto rights over a number of major decisions or transactions; and

rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

*Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DoCoMo.* Each of NTT Communications and NTT DoCoMo has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

*Limitation on Competition.* NTT Communications, NTT DoCoMo and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DoCoMo with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

*Business Cooperation.* PLDT and NTT DoCoMo agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DoCoMo.

*Additional Rights of NTT DoCoMo.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DoCoMo and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DoCoMo has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

1. NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the Board of Directors of each PLDT and Smart;

2. PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially

254

---

**Table of Contents**

the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;

3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
4. PLDT must first consult with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

As at December 31, 2010, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT's outstanding common stock.

*Change in Control.* Each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *Hostile Transferee* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DoCoMo, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DoCoMo in good faith whether such person should be considered a Hostile Transferee.

*Termination.* If NTT Communications, NTT DoCoMo or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

2. *Integrated i-mode Services Package Agreement between NTT DoCoMo and Smart*



An Integrated i-mode Services Package Agreement was entered into by Smart and NTT DoCoMo on February 15, 2006, under which NTT DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from NTT DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. There was no royalty fees for the years ended

255

---

**Table of Contents**

December 31, 2010 and 2009 while total royalty fees charged to operations under this agreement amounted to Php55 million for the year ended December 31, 2008. Smart has no outstanding obligation under this agreement as at December 31, 2010 and 2009.

3. *Advisory Service Agreement between NTT DoCoMo and PLDT*

An Advisory Services Agreement was entered into by NTT DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php75 million each for the years ended December 31, 2010 and 2009 and Php76 million for the year ended December 31, 2008. Under this agreement, the outstanding obligations of PLDT amounted to Php13 million and Php6 million as at December 31, 2010 and 2009, respectively.

4. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

*Advisory Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;

*Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications Arcstar brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name Arcstar and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines;

*Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses; and

*Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. Total fees under these agreements amounted to Php114 million each for the years ended December 31, 2010 and 2009 and Php99 million for the year ended December 31, 2008. Under these agreements, the outstanding obligations of PLDT amounted to Php44 million and Php39 million as at December 31, 2010 and 2009, respectively.

5. *Agreement between Smart and Asia Link B.V., or ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which upon its expiration on February 23, 2008 was renewed

until February 23, 2012 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to 1% of the consolidated net revenues of Smart. Total service fees charged to operations under this agreement amounted to Php615 million, Php634 million and Php630 million for the years ended December 31, 2010, 2009 and 2008, respectively. Under this agreement, the outstanding obligations of Smart amounted to Php200 million and Php188 million as at December 31, 2010 and 2009, respectively.

**Table of Contents****6. Agreements Relating to Insurance Companies**

Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php328 million, Php404 million and Php419 million for the years ended December 31, 2010, 2009 and 2008, respectively. Two directors of PLDT have direct/indirect interests in or serve as a director/officer of Gotuaco and Malayan.

**d. Others**

See Note 18 *Prepayments* for other related party transactions.

**Compensation of Key Officers of the PLDT Group**

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
		(in million pesos)	
Short-term employee benefits	<b>664</b>	593	498
Share-based payments and other long-term employee benefits (Note 25)	<b>277</b>	418	233
Post-employment benefits (Note 25)	<b>25</b>	33	24
Total compensation paid to key officers of the PLDT Group	<b>966</b>	1,044	755

In 2008, each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php125 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php50 thousand for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved the increase in director's fee to Php200 thousand for board meeting attendance and to Php75 thousand for Board Committee meeting attendance. The director's fee was last adjusted in July 1998.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

**25. Share-based Payments and Employee Benefits****Share-based Payments**

On August 28, 2006, the PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, 2007 to 2009 LTIP, upon endorsement of the ECC, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the 2007 to

2009 Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle.

**Table of Contents**

The value of the reward and accrued as at December 31, 2009, was computed in accordance with the formula prescribed in 2007 to 2009 LTIP, subject to the minimum and maximum award level to be granted, following the terms and formula as described therein. The fair value of the 2007 to 2009 LTIP were estimated using an option pricing model, which considered annual stock volatility, risk-free interest rates, dividends yield, the remaining life of options and share price. The cost per share of the 2007 to 2009 LTIP, which amounted to Php1,029 as at December 31, 2009, was based on the computed minimum award level. The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million for the years ended December 31, 2009 and 2008, respectively. The outstanding 2007 to 2009 LTIP liability of Php4,582 million as at December 31, 2009 was paid in April 2010. See *Note 3 Management's Use of Judgments, Estimates and Assumptions*, *Note 5 Income and Expenses*, *Note 23 Accrued Expenses and Other Current Liabilities* and *Note 26 Contractual Obligations and Commercial Commitments*.

**Pension***Defined Benefit Pension Plans*

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

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
	(in million pesos)		
Changes in present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of year	<b>17,399</b>	10,917	10,160
Interest costs	<b>1,559</b>	1,193	834
Current service costs	<b>997</b>	643	600
Actuarial losses (gains) on obligations	<b>(2,855)</b>	4,720	(101)
Liabilities of newly acquired subsidiaries		19	
Actual benefits paid/settlements	<b>(2,504)</b>	(93)	(576)
Curtailment	<b>8</b>		
Present value of defined benefit obligations at end of year	<b>14,604</b>	17,399	10,917
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of year	<b>19,980</b>	7,168	8,519
Actual contributions	<b>(17)</b>	8,866	914
Expected return on plan assets	<b>2,340</b>	673	865
Actual benefits paid/settlements	<b>(2,481)</b>	(93)	(576)
Actuarial gains (losses) on plan assets	<b>179</b>	3,366	(2,554)
Fair value of plan assets at end of year	<b>20,001</b>	19,980	7,168
Unfunded (surplus) status net	<b>(5,397)</b>	(2,581)	3,749
Unrecognized net actuarial gains (losses) (Note 3)	<b>479</b>	(2,474)	(1,126)

	<b>(4,918)</b>	(5,055)	2,623
Accrued benefit costs (Note 3)	<b>415</b>	359	2,623
Prepaid benefit costs (Notes 3 and 18)	<b>5,333</b>	5,414	
Components of net periodic benefit costs:			
Interest costs	<b>1,559</b>	1,193	834
Current service costs	<b>997</b>	643	600
Net actuarial losses (gains) recognized for the year	<b>23</b>	(3)	(11)
Event gains net	<b>(62)</b>		
Expected return on plan assets	<b>(2,340)</b>	(673)	(865)
Net periodic benefit costs (Notes 3 and 5)	<b>177</b>	1,160	558

Actual return on plan assets amounted to gain of Php2,519 million and Php4,036 million for the years ended December 31, 2010 and 2009, respectively, and loss of Php1,690 million for the year ended December 31, 2008.

258

---

**Table of Contents**

The present value of defined benefit obligation, fair values of assets and experience adjustment as at and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are as follows:

	<b>2010</b>	2009	2008	2007	2006
			(in million pesos)		
Present value of defined benefit obligation	<b>14,604</b>	17,399	10,917	10,160	13,314
Fair value of assets	<b>20,001</b>	19,980	7,168	8,519	5,768
Experience adjustment arising on:					
Liability (gain) loss due to experience as percentage of defined benefit obligation	<b>(1.43%)</b>	5.10%	(7.23%)	0.05%	(1.61%)
Asset (gain) loss due to experience as percentage of plan assets	<b>0.77%</b>	16.86%	(35.66%)	14.01%	5.96%

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
Average remaining working years of covered employee	<b>19</b>	18	20
Expected rate of return on plan assets	<b>11%</b>	12%	9%
Discount rate	<b>8%</b>	9%	11%
Rate of increase in compensation	<b>8%</b>	9%	10%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The assets of the Beneficial Trust Fund established for PLDT's pension plan include investments in shares of stocks of PLDT with a fair value amounting to Php428 million and Php430 million as at December 31, 2010 and 2009, respectively, which represent about 2% each of such beneficial trust fund's assets available for plan benefits.

The Board of Trustees of the beneficial trust fund uses an investment approach of mixed equity and fixed income investments to maximize the long-term expected return of plan assets. The investment portfolio has been structured to achieve the objective of regular income with capital growth and out-performance of benchmarks. A majority of the investment portfolio consists of various equity securities, debt and fixed income securities, while the remaining portion consists of multi-currency investments.

The allocation of the fair value of the beneficial trust fund's assets for the PLDT pension plan as at December 31, 2010, 2009 and 2008 is as follows:

	<b>2010</b>	2009	2008
Investments in listed and unlisted equity securities	<b>70%</b>	78%	51%
Temporary cash investments	<b>24%</b>	7%	8%
Investments in real estate	<b>3%</b>	5%	9%
Investments in debt and fixed income securities	<b>2%</b>	9%	27%
Investments in mutual funds	<b>1%</b>	1%	5%
	<b>100%</b>	100%	100%



Total contributions of PLDT to the pension plan amounted to Php8,848 million and Php914 million for the years ended December 31, 2009 and 2008, respectively. PLDT made no contribution to the pension plan for the year ended December 31, 2010. The Php8,848 million contributions to the benefit trust fund in 2009 was used to invest in various listed and unlisted equity securities. As a result of the contributions in 2009, PLDT expects substantial reduction in net periodic benefit costs moving forward. In addition, PLDT does not expect to make contributions to the beneficial trust fund in the next few years.

*Defined Contribution Plan*

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

**Table of Contents**

and 2009, Smart and I-Contacts were in compliance with the requirements of R.A. 7641.

The plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The allocation of the fair value of the beneficial trust fund's assets for Smart and I-Contacts pension plan as at December 31, 2010, 2009 and 2008 is as follows:

	<b>2010</b>	2009	2008
Investments in debt and fixed income securities	<b>58%</b>	61%	68%
Investments in listed and unlisted equity securities	<b>37%</b>	34%	23%
Others	<b>5%</b>	5%	9%
	<b>100%</b>	100%	100%

Smart and I-Contacts currently expect to make approximately Php188 million of cash contributions to their pension plans in 2011.

*Pension Benefit Costs*

Total consolidated pension benefit costs for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
		(in million pesos)	
Expense recognized for defined benefit plans	<b>177</b>	1,160	558
Expense recognized for defined contribution plans	<b>59</b>	146	167
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	<b>236</b>	1,306	725

*Other Long-term Employee Benefits*

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at and for the year ended December 31, 2010. See *Note 3 Management's Use of Judgments, Estimates and Assumptions* and *Note 5 Income and Expenses*.

Net periodic benefit costs computed for the year ended December 31, 2010 are as follows:

	(in million pesos)
Components of net periodic benefit costs:	
Current service costs	1,327
Interest costs	28
Net actuarial loss	37
Net periodic benefit costs	1,392



**Table of Contents****26. Contractual Obligations and Commercial Commitments****Contractual Obligations**

The following table discloses our consolidated contractual undiscounted obligations outstanding as at December 31, 2010 and 2009:

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
(in million pesos)					
<b>December 31, 2010</b>					
<i>Debt</i> <sup>(1)</sup> :	113,394	6,569	51,308	33,978	21,539
Principal	92,590	6,206	38,263	29,335	18,786
Interest	20,804	363	13,045	4,643	2,753
<i>Lease obligations</i> :	8,003	4,383	1,710	948	962
Operating lease	7,959	4,353	1,697	947	962
Finance lease	44	30	13	1	
<i>Unconditional purchase obligations</i> <sup>(2)</sup>	797	271	263	263	
<i>Other obligations</i> :	68,714	50,247	13,895	683	3,889
Derivative financial liabilities <sup>(3)</sup> :	4,173		1,667	674	1,832
Long-term currency swaps	4,173		1,667	674	1,832
Various trade and other obligations:	64,541	50,247	12,228	9	2,057
Suppliers and contractors	32,997	20,957	12,040		
Utilities and related expenses	16,477	16,446	10	3	18
Employee benefits	3,853	3,853			
Customers deposits	2,223		178	6	2,039
Dividends	2,086	2,086			
Carriers	1,866	1,866			
Others	5,039	5,039			
<b>Total contractual obligations</b>	<b>190,908</b>	<b>61,470</b>	<b>67,176</b>	<b>35,872</b>	<b>26,390</b>
<b>December 31, 2009</b>					
<i>Debt</i> <sup>(1)</sup> :	130,075	5,241	56,398	38,073	30,363
Principal	102,587	4,876	40,226	31,953	25,532
Interest	27,488	365	16,172	6,120	4,831
<i>Lease obligations</i> :	7,564	3,778	1,956	994	836
Operating lease	7,497	3,730	1,940	991	836
Finance lease	67	48	16	3	
<i>Unconditional purchase obligations</i> <sup>(2)</sup>	834	137	279	279	139
<i>Other obligations</i> :	64,456	44,322	15,528	826	3,780
Derivative financial liabilities <sup>(3)</sup> :	4,759		2,153	789	1,817
Long-term currency swaps	4,759		2,153	789	1,817
Various trade and other obligations:	59,697	44,322	13,375	37	1,963
Suppliers and contractors	26,941	14,975	11,966		

Utilities and related expenses	14,737	14,687	18	5	27
Employee benefits	8,082	8,082			
Customers deposits	2,166		198	32	1,936
Carriers	1,937	1,937			
Dividends	1,749	1,749			
Others	4,085	2,892	1,193		
<b>Total contractual obligations</b>	<b>202,929</b>	<b>53,478</b>	<b>74,161</b>	<b>40,172</b>	<b>35,118</b>

(1) *Consists of notes payable and long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

(2) *Based on the Amended ATPA with AIL. See Note 24 Related Party Transactions.*

(3) *Gross liabilities before any offsetting application.*

*Debt*

See Note 20 *Interest-bearing Financial Liabilities* for a detailed discussion of our debt.

*Operating Lease Obligations*

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment.

**Table of Contents**

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2010 are as follows:

	(in million pesos)
Within one year	4,469
After one year but not more than five years	2,528
More than five years	962
	7,959

*Finance Lease Obligations*

See *Note 20 Interest-bearing Financial Liabilities* for the detailed discussion of our long-term finance lease obligations.

*Unconditional Purchase Obligations*

See *Note 24 Related Party Transactions* for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php797 million and Php834 million as at December 31, 2010 and 2009, respectively.

*Other Obligations**Derivative Financial Liabilities*

See *Note 28 Financial Assets and Liabilities* for the detailed discussion of our derivative financial liabilities.

*Various Trade and Other Obligations*

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php64,541 million and Php59,697 million as at December 31, 2010 and 2009, respectively. See *Note 22 Accounts Payable* and *Note 23 Accrued Expenses and Other Current Liabilities*.

**Commercial Commitments**

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,145 million and Php1,317 million as at December 31, 2010 and 2009, respectively. These commitments will expire within one year.

See *Note 28 Financial Assets and Liabilities* for discussion of Liquidity Risk Management.

**27. Provisions and Contingencies***NTC Supervision and Regulation Fees, or SRF*

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC have been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT's capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned

**Table of Contents**

the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

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

*PLDT's Local Business and Franchise Tax Assessments*

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082. PLDT believes that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, PLDT has paid a total amount of Php936 million as at December 31, 2010 for local franchise tax covering prior periods up to December 31, 2010.

As at December 31, 2010, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The RTC rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. The City of Tuguegarao has filed a Motion for Reconsideration which was denied by the court in its Order dated March 2, 2009. The City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the

Court of Tax Appeals, or CTA. The City of Tuguegarao filed its Comment to PLDT's

263

---



**Table of Contents**

Motion to Dismiss. PLDT will file its Reply on the said Comment of the City of Tuguegarao. Said motion to dismiss is now submitted for resolution by the honorable court.

Moreover, PLDT also contested the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction specifically that of the City of Tuguegarao, in the amount of Php3 million for the years 1999 to 2006. The RTC in its decision dated February 25, 2009, ruled in favor of PLDT, stating that the Province of Cagayan can no longer tax PLDT for transactions taking place in the City of Tuguegarao. The Province of Cagayan filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 7, 2009. The Province of Cagayan filed a Petition for Review before the CTA. The CTA ordered PLDT to file its Comment on the Petition which PLDT timely filed on February 25, 2010. In a resolution dated April 30, 2010, the court ordered both parties to submit their respective memoranda which PLDT timely complied by filing its memorandum on June 4, 2010. Last September 20, 2010 PLDT received the Decision of the CTA which Affirmed with Modifications the Decision of the RTC. Though said Decision affirmed that the Province of Cagayan cannot impose franchise tax on gross receipts realized in the City of Tuguegarao, the CTA ruled that PLDT is subject to surcharge and interest for the years 1999 to 2004 thereby reducing the amount refundable to PLDT from Php2.8 million to Php1 million. Both parties filed a partial motion for reconsideration of the said decision as well as comment on the other party's motion. Both motions are now submitted for resolution by the honorable court.

*Smart's Local Business and Franchise Tax Assessments*

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati totaling approximately Php312 million, inclusive of surcharges and interests, covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In a letter dated March 24, 2008, the Miscellaneous, Taxes, Fees and Charges Division of the City of Makati requested payment for alleged deficiency local franchise tax covering the years 1995 and 1997 to 2003. Smart replied and reiterated its exemption from local franchise tax based on its legislative franchise and the *Smart vs. City of Makati* case, which covered the years 1995 and 1998 to 2001. On March 9, 2009, Smart received another letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, Smart received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1995 and 1997 to 2003. On December 16, 2009 and January 29, 2010, Smart filed its reply letters and refuted the alleged franchise tax liability based on the *Smart vs. City of Makati* case and its BOI registration dated May 3, 2001. In August 2009, the Business Tax Division of the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued a Notice of Assessment dated October 23, 2009 against Smart for alleged deficiency local business taxes, fees and charges, including interest and penalties, covering the years 2006 to 2008. Smart protested the assessment on December 16, 2009. On February 8, 2010, Smart received the City of Makati's Revised Notice of Assessment, which showed deficiency local franchise and business taxes, including interest and penalties, for the years 2006 to 2008. Smart contested the revised deficiency local tax assessment on February 15, 2010. In a letter dated February 19, 2010, the City of Makati demanded the immediate settlement of the alleged tax liability. On March 3, 2010, Smart requested the City of Makati for a reinvestigation and for it to further evaluate its arguments and supporting documents. After which, Smart had several meetings with the officials of the City of Makati to discuss its request for reinvestigation. During that period, the City of Makati officials advised Smart that they still need to study and internally discuss the arguments of Smart. On August 3, 2010, Smart received the City of Makati's Notice of Dstraint and Levy dated July 23, 2010. Smart sent a letter to the City of Makati on August 10, 2010 inquiring on the status of Smart's request for reinvestigation and requested for a meeting. On August 19, 2010, Smart's representatives met with the City of Makati officials and they then informed Smart's representatives that its decision on the matter is final.

On September 1, 2010, Smart filed an Appeal with application for the issuance of a Temporary Restraining Order and Writ of Preliminary Injunction before the RTC of the City of Makati (Branch 133) docketed as SCA No. 10-852. On September 6, 2010, the RTC of the City of Makati (Branch 133) promulgated an Order granting the issuance of a

temporary restraining order for 20 days directing the City of Makati and the City Treasurer to

264

---

**Table of Contents**

maintain the status quo until a hearing can be had to determine the propriety of injunctive relief conditioned upon posting of a Php200 million bond by Smart. In an Order dated September 23, 2010, the RTC of the City of Makati (Branch 133) issued a Writ of Preliminary Injunction conditioned upon posting of Php500 million bond by Smart. Smart submitted the bond with the RTC of the City of Makati (Branch 133) on October 4, 2010. The City of Makati filed a Motion for Reconsideration of the Order dated September 23, 2010, which was denied.

Meanwhile, the City of Makati filed a Motion to Dismiss dated September 15, 2010 and a Motion to Inhibit dated September 21, 2010, which were both denied as well as the Motions for Reconsideration from the Orders denying the said motions.

Thus, the City of Makati filed with the Court of Appeals a Petition for Certiorari [With Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated December 16, 2010, seeking to annul the following orders of the RTC of the City of Makati: Order dated September 23, 2010 (granting Smart's prayer for the issuance of a Writ of Preliminary Injunction); and Order dated October 12, 2010 (denying the City of Makati's Motion to Dismiss and Motion for Inhibition), as well as the denial of the motions for reconsideration of the Orders dated September 23, 2010 and October 12, 2010. To date, the Court of Appeals has not ordered Smart to file a Comment. However, the Court of Appeals directed the City of Makati to amend the Verification portion of the Petition to state that the representative signing the Petition has personal knowledge of the contents thereof.

Trial dates are set on March 7, 2011, March 21, 2011 and April 4, 2011.

Meanwhile, Smart also received similar local franchise tax assessments issued by the City of Iloilo amounting to approximately Php0.7 million, inclusive of surcharge and penalties. The RTC of Iloilo likewise ruled in favor of Smart in its Decision dated January 19, 2005 (Civil Case No. 02-27144) declaring Smart as exempt from payment of local franchise tax. The City of Iloilo appealed the Decision and the Supreme Court, on February 27, 2009, (G.R. No. 167260) ruled that Smart is liable to pay the local franchise tax to the City of Iloilo. On April 2, 2009, Smart filed its Motion for Reconsideration. On July 1, 2009, the Supreme Court's Special Second Division issued a Resolution denying Smart's Motion for Reconsideration. In accordance with this Decision, Smart paid the City of Iloilo.

In 2002, Smart filed a special civil action for declaratory relief for the ascertainment of its rights and obligations under the Tax Code of the City of Davao. The relevant section of Smart's franchise provided that the grantee shall pay a franchise tax equivalent to 3% of all gross receipts of the business transacted under the franchise by the grantee and the said percentage shall be in lieu of all taxes on the franchise or earnings thereof. On September 16, 2008, the Supreme Court's Third Division ruled that Smart is liable for local franchise tax since the phrase *in lieu of all taxes* merely covers national taxes and was rendered inoperative when the VAT law took effect. On October 21, 2008, Smart filed its Motion for Reconsideration. Smart argued that the operative word in the *in lieu of all taxes* clause in Smart's franchise is the word *all*. The word *all* before *taxes* in the clause *in lieu of all taxes* covers all kinds of taxes, national and local, except only those mentioned in the franchise. Smart also argued that the BIR already clarified in its Revenue Memorandum Circular No. 5-96 dated March 31, 1997 that the VAT merely replaced the franchise tax. On July 21, 2009, the Supreme Court's Third Division promulgated its Resolution denying Smart's Motion for Reconsideration and affirming that Smart is liable to pay local franchise tax to the City of Davao. On June 3, 2010, Smart received an initial local franchise tax assessment from the City of Davao covering the years from 1997 to 2010. Smart filed on June 21, 2010 its letter of protest against the local franchise tax assessment citing its local tax exemption by virtue of its BOI registration. On July 6, 2010, Smart received a letter from the City of Davao requesting for the submission of additional documents. Smart submitted several documents on August 3, 2010. In reply to Smart's protest, the City of Davao answered several issues, made an assessment and demanded for the settlement of the local franchise tax. Smart received the reply on October 26, 2010. On November 11, 2010, Smart protested the assessment. In an unsigned letter received by Smart on December 17, 2010, the City of Davao maintained that Smart is obligated to pay the local franchise tax assessed.

In an Indorsement dated February 10, 2011, the City of Davao Legal Office issued an Opinion recognizing that Smart's Tax exemption, being a BOI registered enterprise, shall commence from the date of registration with the Board (six years for pioneer business enterprise), pursuant to the provisions of Section 133(g) of the Local Government Code in relation to Article 11 of the Omnibus Investment Code of 1987.



**Table of Contents**

With the finality of the Iloilo and Davao cases, several cities and provinces have begun discussions with Smart on the settlement of alleged local franchise tax within their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the Iloilo and Davao decisions and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

*PCEV's Local Franchise Tax Assessment*

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled *Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto (Piltel vs. City of Makati)* (Civil Case No. 01-1760), the RTC of the City of Makati rendered its Decision dated December 10, 2002 declaring PCEV exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of PCEV, R.A. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *Piltel vs. City of Makati* case. As at March 29, 2011, this case is still pending with the City of Makati.

*Real Property Tax Assessment*

In *Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City*, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise. On August 16, 2010, the Court of Appeals issued an Entry of Judgment confirming that the November 26, 2008 Resolution had become final and executory on December 22, 2008, and it was recorded in the book of Entries of Judgments.

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

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

*Matters Relating to a Third Party Aggregator*

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary, Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to

**Table of Contents**

offer a lower rate for long distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

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

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

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

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

**28. Financial Assets and Liabilities**

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 Summary of Significant Accounting Policies*.

The following table sets forth our financial assets and financial liabilities as at December 31, 2010 and 2009:

	Loans and receivables	Held-to- maturity investments	Fair value through profit or loss	Available-for- sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
(in million pesos)								

**Assets as at  
December 31, 2010**

**Noncurrent:**

Property, plant and  
equipment

163,184	163,184
23,203	23,203

Investments in associates and joint ventures				
Available-for-sale financial assets		147	147	147
Investment in debt securities	484		484	484
Investment properties			1,560	1,560
Goodwill and intangible assets			11,485	11,485
Deferred income tax assets net			6,110	6,110
Derivative financial assets		178	178	178
Prepayments net of current portion			8,679	8,679
Advances and refundable deposits net of current portion	984		984	203
<b>Current:</b>				
Cash and cash equivalents	36,678		36,678	36,678
Short-term investments	152	517	669	669
Trade and other receivables	16,428		16,428	16,428
Inventories and supplies			2,219	2,219
Derivative financial assets		5	5	5
Current portion of prepayments			5,418	5,418
		267		

---

**Table of Contents**

	Loans and receivables	Held-to- maturity investments	Fair value through profit or loss	Available-for- sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
(in million pesos)								
Current portion of advances and refundable deposits	16					16	165	181
Total assets	54,258	484	700	147		55,589	222,226	277,815
<b>Liabilities as at December 31, 2010</b>								
<b>Noncurrent:</b>								
Interest-bearing financial liabilities net of current portion					75,888	75,888		75,888
Deferred income tax liabilities net							1,099	1,099
Derivative financial liabilities			3,604			3,604		3,604
Pension and other employee benefits							1,834	1,834
Customers deposits					2,223	2,223		2,223
Deferred credits and other noncurrent liabilities					12,041	12,041	1,526	13,567
<b>Current:</b>								
Accounts payable					23,673	23,673	2,131	25,804
Accrued expenses and other current liabilities					28,822	28,822	7,137	35,959
Provision for assessments							1,555	1,555
Current portion of interest-bearing financial liabilities					13,801	13,801		13,801
Dividends payable					2,086	2,086		2,086
Income tax payable							3,010	3,010
Total liabilities			3,604		158,534	162,138	18,292	180,430
	<b>54,258</b>	<b>484</b>	<b>(2,904)</b>	<b>147</b>	<b>(158,534)</b>	<b>(106,549)</b>	<b>203,934</b>	<b>97,385</b>



**Net assets  
(liabilities)**

**Assets as at  
December 31, 2009**

**Noncurrent:**

Property, plant and equipment						161,256	161,256
Investments in associates and joint ventures						22,233	22,233
Available-for-sale financial assets			134		134		134
Investment in debt securities		462			462		462
Investment properties						1,210	1,210
Goodwill and intangible assets						13,024	13,024
Deferred income tax assets net						7,721	7,721
Prepayments net of current portion						8,663	8,663
Advances and refundable deposits net of current portion	842				842	260	1,102
<b>Current:</b>							
Cash and cash equivalents	38,319				38,319		38,319
Short-term investments	3,338	486			3,824		3,824
Trade and other receivables	14,729				14,729		14,729
Inventories and supplies						2,165	2,165
Derivative financial assets			6		6		6
Current portion of prepayments						5,098	5,098
Current portion of advances and refundable deposits	7				7	195	202
Total assets	57,235	462	492	134	58,323	221,825	280,148

**Liabilities as at  
December 31, 2009**

**Noncurrent:**

Interest-bearing financial liabilities net of current portion					86,079	86,079		86,079
Deferred income tax liabilities net							1,321	1,321
Derivative financial liabilities	2,751					2,751		2,751
Pension and other employee benefits							374	374
Customers deposits					2,166	2,166		2,166
Deferred credits and other noncurrent liabilities					13,159	13,159	1,279	14,438
<b>Current:</b>								
Accounts payable					17,698	17,698	1,903	19,601
Accrued expenses and other current liabilities					28,752	28,752	6,694	35,446
Provision for assessments							1,555	1,555
Current portion of interest-bearing financial liabilities					12,714	12,714		12,714
Dividends payable					1,749	1,749		1,749
Income tax payable							2,829	2,829
Total liabilities	2,751				162,317	165,068	15,955	181,023
<b>Net assets (liabilities)</b>	<b>57,235</b>	<b>462</b>	<b>(2,259)</b>	<b>134</b>	<b>(162,317)</b>	<b>(106,745)</b>	<b>205,870</b>	<b>99,125</b>

**Table of Contents**

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2010 and 2009:

	Carrying Value		Fair Value	
	2010	2009	2010	2009
		(in million pesos)		
<b>Noncurrent Financial Assets</b>				
Available-for-sale financial assets:				
Listed equity securities	78	68	78	68
Unlisted equity securities	69	66	69	66
Investment in debt securities	484	462	502	474
Derivative financial assets:				
Long-term currency swap	178		178	
Advances and refundable deposits net of current portion	984	842	915	732
Total noncurrent financial assets	1,793	1,438	1,742	1,340
<b>Current Financial Assets</b>				
Cash and cash equivalents:				
Cash on hand and in banks	2,906	3,300	2,906	3,300
Temporary cash investments	33,772	35,019	33,772	35,019
Short-term investments	669	3,824	669	3,824
Trade and other receivables net:				
Foreign administrations	4,321	4,064	4,321	4,064
Retail subscribers	3,872	3,546	3,872	3,546
Corporate subscribers	2,042	2,429	2,042	2,429
Domestic carriers	1,453	1,184	1,453	1,184
Dealers, agents and others	4,740	3,506	4,740	3,506
Derivative financial assets:				
Bifurcated embedded derivatives	5	6	5	6
Current portion of advances and refundable deposits	16	7	16	7
Total current financial assets	53,796	56,885	53,796	56,885
<b>Total Financial Assets</b>	<b>55,589</b>	<b>58,323</b>	<b>55,538</b>	<b>58,225</b>
<b>Noncurrent Financial Liabilities</b>				
Interest-bearing financial liabilities:				
Long-term debt net of current portion	75,879	86,066	82,244	88,383
Obligations under finance lease	9	13	8	12
Derivative financial liabilities:				
Long-term currency swap	3,604	2,751	3,604	2,751
Customers deposits	2,223	2,166	1,701	1,375
Deferred credits and other noncurrent liabilities	12,041	13,159	11,457	11,629
Total noncurrent financial liabilities	93,756	104,155	99,014	104,150
<b>Current Financial Liabilities</b>				

Accounts payable:				
Suppliers and contractors	<b>20,957</b>	14,975	<b>20,957</b>	14,975
Carriers	<b>1,866</b>	1,937	<b>1,866</b>	1,937
Related parties	<b>244</b>	233	<b>244</b>	233
Others	<b>606</b>	553	<b>606</b>	553
Accrued expenses and other current liabilities:				
Utilities and related expenses	<b>19,739</b>	17,388	<b>19,739</b>	17,388
Employee benefits	<b>3,852</b>	8,071	<b>3,852</b>	8,071
Interests and other related costs	<b>1,028</b>	1,167	<b>1,028</b>	1,167
Liability arising from purchase of investment		65		65
Others	<b>4,203</b>	2,061	<b>4,203</b>	2,061
Interest-bearing financial liabilities:				
Current portion of long-term debt	<b>13,767</b>	10,384	<b>13,767</b>	10,384
Obligations under finance lease	<b>34</b>	51	<b>34</b>	51
Notes payable		2,279		2,279
Dividends payable	<b>2,086</b>	1,749	<b>2,086</b>	1,749
Total current financial liabilities	<b>68,382</b>	60,913	<b>68,382</b>	60,913
<b>Total Financial Liabilities</b>	<b>162,138</b>	165,068	<b>167,396</b>	165,063

**Table of Contents**

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as at December 31, 2010 and 2009:

	2010			2009		
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Total (in million pesos)	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Total
<b>Noncurrent Financial Assets</b>						
Available-for-sale financial assets Listed equity securities	78		78	68		68
Derivative financial assets		178	178			
<b>Current Financial Assets</b>						
Short-term investments		517	517		486	486
Derivative financial assets		5	5		6	6
<b>Total</b>	<b>78</b>	<b>700</b>	<b>778</b>	<b>68</b>	<b>492</b>	<b>560</b>
<b>Noncurrent Financial Liabilities</b>						
Derivative financial liabilities		3,604	3,604		2,751	2,751
<b>Total</b>		<b>3,604</b>	<b>3,604</b>		<b>2,751</b>	<b>2,751</b>

(1) Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

(2) Fair values determined using inputs other than quoted prices that are either directly or indirectly observable for the assets or liabilities.

As at December 31, 2010 and 2009, we do not have financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3).

As at December 31, 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Long-term financial assets and liabilities:*

Fair value is based on the following:

Type	Fair Value Assumptions
Noncurrent portion of advances and refundable deposits	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.
Fixed rate loans:	
U.S. dollar notes	Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing rates for similar types of loans.
Other loans in all other currencies	



**Table of Contents**

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, current investment in debt securities, trade and other receivables, current portion of advances and refundable deposits, accounts payable, accrued expenses and other current liabilities, current portion of interest-bearing financial liabilities, and dividends payable approximate their carrying values as at the end of the reporting period.

*Derivative Financial Instruments*

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. As at December 31, 2010 and 2009, we have no outstanding financial instruments designated as hedges.

The table below sets out the information about our derivative financial instruments not designated as hedges as at December 31, 2010 and 2009:

		2010			2009	
	Maturity	Notional	Mark-to-market Gains (Losses) (in millions)		Notional	Mark-to-market Gains (Losses)
<b>PLDT</b>						
Currency swaps	2017	US\$ 222	Php	(2,651)	US\$ 245	Php (1,803)
	2012	100		(953)	146	(948)
	2012	60 <sup>(1)</sup>		178		
				(3,426)		(2,751)
<b>ePLDT</b>						
Bifurcated embedded derivatives	2012	1		5	1	4
<b>Smart</b>						
Bifurcated embedded derivatives	2010					2
Net liabilities			Php	(3,421)		Php (2,745)

<sup>(1)</sup> *Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement maturing in 2012.*

	2010	2009
	(in million pesos)	
Presented as:		
Noncurrent assets	178	
Current assets	5	6
Noncurrent liabilities	(3,604)	(2,751)

Net liabilities **(3,421)** (2,745)

Analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2010, 2009 and 2008 are as follows:

	<b>2010</b>	2009	2008
	(in million pesos)		
Net mark-to-market losses at end of year	<b>(3,421)</b>	(2,745)	(1,792)
Net mark-to-market losses at beginning of year	<b>(2,745)</b>	(1,792)	(7,027)
Net change	<b>(676)</b>	(953)	5,235
Hedge cost	<b>(434)</b>	(599)	(819)
Settlements, accretion and conversion	<b>(631)</b>	546	(2,367)
Net losses on cash flow hedges charged to other comprehensive income			662
Effective portion recognized in the profit or loss for the cash flow hedge			286
Ineffective portion recognized in the profit or loss for the cash flow hedge			118
Net gains (losses) on derivative financial instruments (Note 4)	<b>(1,741)</b>	(1,006)	3,115



**Table of Contents****PLDT**

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

*Currency Swaps*

PLDT has entered into long-term principal-only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. These long-term currency swaps have an aggregate notional amount of US\$322 million and US\$391 million with total mark-to-market losses of Php3,604 million and Php2,751 million as at December 31, 2010 and 2009, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php50.45 and Php50.60 as at December 31, 2010 and 2009, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 2.93% and 2.83% per annum as at December 31, 2010 and 2009, respectively.

On various dates in 2009, the long-term principal-only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php112 million and Php485 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$146 million and US\$245 million for the swaps maturing in 2012 and 2017, respectively, with mark-to-market losses of Php948 million and Php1,803, respectively, as at December 31, 2009.

On various dates in 2010, the long-term principal only-currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php372 million and Php168 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$100 million and US\$222 million for the swaps maturing in 2012 and 2017, respectively, with mark-to-market losses of Php953 million and Php2,651 million, respectively, as at December 31, 2010.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cashflows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average hedge cost of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php178 million as at December 31, 2010.

**ePLDT**

Level Up! embedded derivatives were bifurcated from various license contracts and other service agreements denominated in U.S. dollar. The aggregate notional amount of these bifurcated embedded currency forwards amounted to US\$1 million each as at December 31, 2010 and 2009. The total mark-to-market gains of these bifurcated embedded currency forwards amounted to Php5 million and Php4 million as at December 31, 2010 and 2009, respectively.

**Smart**

Smart's embedded derivatives were bifurcated from service and purchase contracts. There were no outstanding contracts as at December 31, 2010. Outstanding contracts amounted to US\$209 thousand as at December 31, 2009, including service contracts denominated in U.S. dollars, which is not the functional currency of a substantial party to the contract or the routine currency of the transaction. Mark-to-market gains of these bifurcated embedded currency forwards amounted to Php2 million as at December 31, 2009.

**Financial Risk Management Objectives and Policies**

**Table of Contents**

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

**Liquidity Risk**

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php1,145 million as at December 31, 2010 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php36,678 million and Php669 million, respectively, as at December 31, 2010. See *Note 15 Cash and Cash Equivalents*. Details on our letters of credit and a summary of the maturity profile of our financial liabilities as at December 31, 2010 and 2009 based on contractual undiscounted payments is set out in *Note 26 Contractual Obligations and Commercial Commitments*.

**Foreign Currency Exchange Risk**

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation

adjustments in other comprehensive income until the

273

---

**Table of Contents**

hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year. The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2010 and 2009:

	2010		2009	
	U.S. Dollar	Php <sup>(1)</sup> (in millions)	U.S. Dollar	Php <sup>(2)</sup>
<b>Noncurrent Financial Assets</b>				
Note receivable	2	84	2	81
Derivative financial assets	4	178		
Advances and refundable deposits	1	38		7
Total noncurrent financial assets	7	300	2	88
<b>Current Financial Assets</b>				
Cash and cash equivalents	138	6,050	140	6,496
Short-term investments	15	652	47	2,164
Trade and other receivables net	214	9,361	206	9,573
Derivative financial assets		5		6
Total current financial assets	367	16,068	393	18,239
<b>Total Financial Assets</b>	<b>374</b>	<b>16,368</b>	<b>395</b>	<b>18,327</b>
<b>Noncurrent Financial Liabilities</b>				
Interest-bearing financial liabilities net of current portion	782	34,244	837	38,871
Derivative financial liabilities	82	3,604	59	2,751
Total noncurrent financial liabilities	864	37,848	896	41,622
<b>Current Financial Liabilities</b>				
Accounts payable	169	7,415	155	7,180
Accrued expenses and other current liabilities	143	6,267	95	4,409
Current portion of interest-bearing financial liabilities	103	4,537	155	7,220
Total current financial liabilities	415	18,219	405	18,809
<b>Total Financial Liabilities</b>	<b>1,279</b>	<b>56,067</b>	<b>1,301</b>	<b>60,431</b>

<sup>(1)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

<sup>(2)</sup> The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.43 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2009.

As at March 29, 2011, the peso-dollar exchange rate was Php43.53 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in peso terms by

Php253 million as at December 31, 2010.

Approximately 43% and 46% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2010 and 2009, respectively. Consolidated foreign currency-denominated debt decreased to Php38,414 million as at December 31, 2010 from Php45,633 million as at December 31, 2009. See *Note 20 Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only currency swap contracts were US\$262 million and US\$391 million as at December 31, 2010 and 2009, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 30% (or 23%, net of our consolidated U.S. dollar cash balances) and 28% (or 19%, net of our consolidated U.S. dollar cash balances) as at December 31, 2010 and 2009, respectively.

Approximately 26% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2010 as compared with approximately 28% for each of the years ended December 31, 2009 and 2008. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US\$1.00 as at December 31, 2010 from Php46.43 to US\$1.00 as at December 31, 2009. As at December 31, 2009, the Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US\$1.00 from Php47.65 to US\$1.00 as at December 31, 2008. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php1,807 million and Php909 million in 2010 and 2009, respectively, and net consolidated foreign exchange losses of Php6,170 million in 2008. See *Note 4 Operating Segment Information*.

**Table of Contents**

Management conducted a survey among our banks to determine the outlook of the peso-dollar exchange rate until our next reporting date of December 31, 2011. Our outlook is that the peso-dollar exchange rate may weaken/strengthen by 5.27% as compared to the exchange rate of Php43.81 to US\$1.00 as at December 31, 2010. If the peso-dollar exchange rate had weakened/strengthened by 5.27% as at December 31, 2010, with all other variables held constant, profit after tax for the year end 2010 would have been approximately Php1,099 million higher/lower and our consolidated stockholders' equity as at year end 2010 would have been approximately Php1,089 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

If the peso-dollar exchange rate had weakened/strengthened by approximately 4% as at December 31, 2009, with all other variables held constant, profit after tax for the year would have been approximately Php877 million higher/lower and our consolidated stockholders' equity as at year end 2009 would have been approximately Php849 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

**Interest Rate Risk**

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2010 and 2009. Financial instruments that are not subject to interest rate risk were not included in the table.

**As at December 31, 2010**

	In U.S. Dollar					Total	Discount/ Debt	Carrying Value	Fair Value In U.S.	In Php
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years		Cost In Php			
<b>Assets:</b>										
<i>Cash in Bank</i>										
U.S. Dollar	11					11	474	474	11	474
Interest rate	0.0025% to 0.7840%									
Philippine Peso	31					31	1,362	1,362	31	1,362
Interest rate	0.0625% to 2.9000%									
Other Currencies	3					3	118	118	3	118
Interest rate	0.0100% to 2.4000%									

<i>Temporary</i>								
<i>Cash</i>								
<i>Investments</i>								
U.S. Dollar	110			110	4,813	4,813	110	4,813
Interest rate	0.1000% to							
	1.7000%							
Philippine								
Peso	661			661	28,959	28,959	661	28,959
Interest rate	1.0000% to							
	4.8100%							
<i>Short-term</i>								
<i>Investments</i>								
U.S. Dollar	15			15	652	652	15	652
Interest rate	1.9000% to							
	10.672%							
Philippine								
Peso					17	17		17
Interest rate	3.2500%							
<i>Investment</i>								
<i>in Debt</i>								
<i>Securities</i>								
Philippine								
Peso		8	3	11	484	484	11	502
Interest rate		6.8750%	7.0000%					
	<b>831</b>	<b>8</b>	<b>3</b>	<b>842</b>	<b>36,879</b>	<b>36,879</b>	<b>842</b>	<b>36,897</b>

**Table of Contents**

		In U.S. Dollar					Discount/ Debt Issuance		Carrying Value
Under 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	Cost In Php	In Php (in mi)	
	146			234	380	16,650	200	16,450	
	11.3750%			8.3500%					
9	29	15	295		348	15,264	2,586	12,678	
4.7000%	2.9900% to 3.7900%	2.9900% to 3.7900%	2.2500% to 2.9900%						
68	146	121	339	195	869	38,066	74	37,992	
3.23% to 8.7792%	5.6250% to 8.4346%	6.5000% to 8.4346%	6.5000% to 9.1038%	6.5000% to 9.1038%					
6	148	45	15		214	9,357	71	9,286	
LIBOR 0.8150%	Swap rate + 2.7900%; US\$ LIBOR + 0.4200% to 1.8500%	Swap rate + 2.7900%; US\$ LIBOR + 0.4200% to 1.8500%	Swap rate + 2.7900%; US\$ LIBOR + 1.3500% to 1.8500%						
58	150	74	20		302	13,253	13	13,240	
PDST-F + 0.000% to 1.2500%	PDST-F + 0.3000% to 1.3750%; AUB's prime rate	PDST-F + 0.3000%	PDST-F + 0.3000%						
<b>141</b>	<b>619</b>	<b>255</b>	<b>669</b>	<b>429</b>	<b>2,113</b>	<b>92,590</b>	<b>2,944</b>	<b>89,646</b>	

As at December 31, 2009

Discount/  
Debt  
Issuance  
Cost

Carrying  
Value

In U.S. Dollar



Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php Dollars (in million)	U.S. Dollars	
11 0.0025% to 0.88%					11	540		540		
36 0.625% to 2.90%					36	1,673		1,673		
1 0.0014 to 2.40%					1	31		31		
384 0.50% to 1.75%					384	17,870		17,870	3	
369 1.25% to 5.50%					369	17,149		17,149	3	
46 4.25% to 7.006%					46	2,132		2,132		
36 4.40%					36	1,692		1,692		
				10 6.92%	10	462		462		
<b>883</b>			<b>10</b>		<b>893</b>	<b>41,549</b>		<b>41,549</b>	<b>8</b>	
		146 11.375%			245 8.350%	391	18,161	285	17,876	4
14 4.515%	27 3.79% to 4.70%	5 3.79%		285 2.25% to	331	15,397	3,338	12,059	2	



**Table of Contents**

	In U.S. Dollar					Total	Discount/ Debt		Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years		Issuance Cost	Carrying Value	In U.S.	In U.S.	
Interest rate		PDST-F + 0.75% to 1.5%; AUB s prime rate	PDST-F + 1.0% to 1.50%; AUB s prime rate	PDST-F + 1.0% to 1.50%							
<i>Short-term Debt Notes Payable</i>											
U.S. Dollar	6					6	279	279	6	279	
Interest rate	3.25%										
Philippine Peso	43					43	2,000	2,000	43	2,000	
Interest rate	PDST-F + 1.5%; 6.0896%										
	<b>104</b>	<b>435</b>	<b>432</b>	<b>688</b>	<b>550</b>	<b>2,209</b>	<b>102,587</b>	<b>3,858</b>	<b>98,729</b>	<b>2,176</b>	<b>101,046</b>

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of December 31, 2011. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 15 basis points and 220 basis points higher/lower, respectively, as compared to levels as at December 31, 2010. If U.S. dollar interest rates had been 15 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php56 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 220 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php785 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If U.S. dollar interest rates had been 90 basis points higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php527 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 55 basis points

higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php241 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

***Credit Risk***

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

**Table of Contents**

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at December 31, 2010 and 2009:

	<b>Gross Maximum Exposure<sup>(1)</sup></b>		<b>Net Maximum Exposure<sup>(2)</sup></b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(in million pesos)			
Loans and receivables:				
Advances and refundable deposits	<b>1,000</b>	849	<b>999</b>	848
Cash and cash equivalents	<b>36,678</b>	38,319	<b>36,458</b>	38,101
Short-term investments	<b>152</b>	3,338	<b>152</b>	3,338
Foreign administrations	<b>4,321</b>	4,064	<b>4,277</b>	4,011
Retail subscribers	<b>3,872</b>	3,546	<b>3,799</b>	3,505
Corporate subscribers	<b>2,042</b>	2,429	<b>1,918</b>	2,328
Domestic carriers	<b>1,453</b>	1,184	<b>1,453</b>	1,184
Dealers, agents and others	<b>4,740</b>	3,506	<b>4,740</b>	3,506
Held-to-maturity investments:				
Investment in debt securities	<b>484</b>	462	<b>484</b>	462
Available-for-sale financial assets	<b>147</b>	134	<b>147</b>	134
Fair value through profit or loss:				
Short-term investments	<b>517</b>	486	<b>517</b>	486
Long-term currency swap	<b>178</b>		<b>178</b>	
Bifurcated embedded derivatives	<b>5</b>	6	<b>5</b>	6
<b>Total</b>	<b>55,589</b>	58,323	<b>55,127</b>	57,909

(1) *Gross financial assets before taking into account any collateral held or other credit enhancements or offsetting arrangements.*

(2) *Gross financial assets after taking into account any collateral held or other credit enhancements or offsetting arrangements or deposit insurance.*

**Table of Contents**

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2010 and 2009:

	<b>Total</b>	<b>Neither past due nor impaired</b>		<b>Past due but not impaired</b>	<b>Impaired</b>
		<b>Class A<sup>(1)</sup></b>	<b>Class B<sup>(2)</sup></b> (in million pesos)		
<b>December 31, 2010</b>					
Loans and receivables:					
Advances and refundable deposits	1,000	951	49		
Cash and cash equivalents	36,678	35,368	1,310		
Short-term investments	152	152			
Retail subscribers	8,917	946	926	2,000	5,045
Corporate subscribers	7,998	393	612	1,037	5,956
Foreign administrations	4,479	1,756	699	1,866	158
Domestic carriers	1,591	191	23	1,239	138
Dealers, agents and others	5,273	2,599	2,013	128	533
Held-to-maturity investments:					
Investment in debt securities	484	484			
Available-for-sale financial assets	147	108	39		
Fair value through profit or loss <sup>(3)</sup> :					
Short-term investments	517	517			
Long-term currency swap	178	178			
Bifurcated embedded derivatives	5	5			
<b>Total</b>	<b>67,419</b>	<b>43,648</b>	<b>5,671</b>	<b>6,270</b>	<b>11,830</b>
<b>December 31, 2009</b>					
Loans and receivables:					
Advances and refundable deposits	849	790	59		
Cash and cash equivalents	38,319	37,767	552		
Short-term investments	3,338	2,971	367		
Corporate subscribers	9,106	1,078	283	1,068	6,677
Retail subscribers	8,026	1,236	518	1,792	4,480
Foreign administrations	4,353	1,261	451	2,352	289
Domestic carriers	1,267	157	8	1,019	83
Dealers, agents and others	3,927	2,068	1,022	416	421
Held-to-maturity investments:					
Investment in debt securities	462	462			
Available-for-sale financial assets	134	103	31		
Fair value through profit or loss <sup>(3)</sup> :					
Short-term investments	486	486			
Bifurcated embedded derivatives	6	6			
<b>Total</b>	<b>70,273</b>	<b>48,385</b>	<b>3,291</b>	<b>6,647</b>	<b>11,950</b>

- (1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*
- (2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*
- (3) *Gross receivables from counterparties, before any offsetting arrangements.*

**Table of Contents**

The aging analysis of past due but not impaired class of financial assets as at December 31, 2010 and 2009 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
<b>December 31, 2010</b>						
Loans and receivables:						
Advances and refundable deposits	1,000	1,000				
Cash and cash equivalents	36,678	36,678				
Short-term investments	152	152				
Retail subscribers	8,917	1,872	1,387	150	463	5,045
Corporate subscribers	7,998	1,005	642	159	236	5,956
Foreign administrations	4,479	2,455	616	393	857	158
Domestic carriers	1,591	214	165	182	892	138
Dealers, agents and others	5,273	4,612	21	20	87	533
Held-to-maturity investments:						
Investment in debt securities	484	484				
Available-for-sale financial assets	147	147				
Fair value through profit or loss:						
Short-term investments	517	517				
Long-term currency swap	178	178				
Bifurcated embedded derivatives	5	5				
<b>Total</b>	<b>67,419</b>	<b>49,319</b>	<b>2,831</b>	<b>904</b>	<b>2,535</b>	<b>11,830</b>
<b>December 31, 2009</b>						
Loans and receivables:						
Advances and refundable deposits	849	849				
Cash and cash equivalents	38,319	38,319				
Short-term investments	3,338	3,338				
Corporate subscribers	9,106	1,361	433	198	437	6,677
Retail subscribers	8,026	1,754	1,362	184	246	4,480
Foreign administrations	4,353	1,712	1,320	405	627	289
Domestic carriers	1,267	165	283	293	443	83
Dealers, agents and others	3,927	3,090	332	21	63	421
Held-to-maturity investments:						
	462	462				



Investment in debt securities						
Available-for-sale financial assets	134	134				
Fair value through profit or loss:						
Short-term investments	486	486				
Bifurcated embedded derivatives	6	6				
<b>Total</b>	<b>70,273</b>	<b>51,676</b>	<b>3,730</b>	<b>1,101</b>	<b>1,816</b>	<b>11,950</b>

***Impairment Assessments***

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

*Individually assessed allowance*

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

**Table of Contents**

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

**Capital Management Risk**

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core income per common share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million as at December 31, 2010. We had acquired at total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. See *Note 8 Earnings Per Common Share* and *Note 19 Equity*.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2010 and 2009:

	<b>2010</b>	2009
	(in million pesos)	
Long-term debt, including current portion (Note 20)	<b>89,646</b>	96,450
Notes payable (Note 20)		2,279
Total consolidated debt	<b>89,646</b>	98,729
Cash and cash equivalents (Note 15)	<b>(36,678)</b>	(38,319)
Short-term investments	<b>(669)</b>	(3,824)
Net consolidated debt	<b>52,299</b>	56,586
Equity attributable to equity holders of PLDT	<b>97,069</b>	98,575
Net consolidated debt to equity ratio	<b>54%</b>	57%



**Table of Contents****29. Cash Flow Information**

The table below shows non-cash investing activities for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
	(in million pesos)		
Transfer of Meralco shares to Beacon (Note 10)	15,083		
Recognition of asset retirement obligations (Note 21)	49	17	70
Conversion of preferred stock subject to mandatory redemption		9	1,077

**30. Subsequent Event*****PLDT's Acquisition of Digital Telecommunications Philippines, Inc., or Digitel***

On March 29, 2011, the boards of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3,277,135,882 common shares in Digitel, representing approximately 51.55% equity stake; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiaries to JGS and its subsidiaries, which PLDT expects to be convertible into approximately 18.6 billion shares of Digitel by June 30, 2011; and (iii) intercompany advances of Php34.1 billion made by JGS and its subsidiaries and certain of such seller-parties to Digitel and its subsidiaries (the *Assets*). Digitel is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT share for every Php2,500 consideration payable for the *Assets*. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT will engage an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT.

PLDT further expects to announce its intention to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the other remaining shareholders of Digitel. Under the contemplated tender offer, it is anticipated that PLDT will offer to purchase the remaining Digitel shares at the price of Php1.60 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of the Digitel shareholder. The contemplated tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT shares for the acquisition of the *Assets* and of the remaining Digitel shares held by the other remaining shareholders of Digitel. The 29.65 million new PLDT shares will potentially represent approximately 13.7% of the enlarged issued share capital of PLDT on a fully diluted basis.

Assuming full acceptance by the minorities of Digitel, the total transaction consideration would be Php74.1 billion. The completion of the acquisition will be subject to the procurement of regulatory approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stocks; (ii) the approval by the Philippine SEC of the valuation of the *Assets*; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the *Assets*. In addition, the sale of the Digitel shares is subject to the consent of certain creditors of Digitel and DMPI. This transaction is intended to be completed by the end of the second quarter of 2011.

**Table of Contents**

**Item 19. Exhibits**

See Item 18 above for details of the financial statements filed as part of this annual report.

Exhibits to this report:

- 1(a). Articles of Incorporation (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001)
- 1(b). By-Laws (as amended on August 3, 2010) (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission on March 29, 2011)
2. We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4. Material Contracts
6. Computation of Earnings Per Share
7. Calculation of Ratio of Earnings to Fixed Charges
8. Subsidiaries
- 12.1 Certification of Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
- 12.2 Certification of the Principal Financial Officer required by Rule 13a-14(a) of the Exchange Act
- 13.1 Certification of Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act
- 13.2 Certification of the Principal Financial Officer required by Rule 13a-14(b) of the Exchange Act

**Table of Contents**

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

March 29, 2011

PHILIPPINE LONG DISTANCE TELEPHONE  
COMPANY

By: /s/ Ma. Lourdes C. Rausa-Chan  
MA. LOURDES C. RAUSA-CHAN  
Senior Vice President, Corporate Affairs and  
Legal  
Services Head and Corporate Secretary  
284

---

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
1(a)	Articles of Incorporation (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001)
1(b)	Amended By-Laws (as amended on August 3, 2010)
2	We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4(a)	Stock Purchase and Strategic Investment Agreement, dated September 28, 1999, by and among PLDT, First Pacific Limited, Metro Pacific Corporation, Metro Pacific Asia Link Holdings, Inc., Metro Pacific Resources, Inc. and NTT Communications Corporation (incorporated by reference to PLDT's Form 6-K for the month of September 1999)
4(b)	Executive Stock Option Plan (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001)
4(c)	Master Restructuring Agreement, dated June 21, 2000, as amended on December 12, 2000 and December 19, 2000, between PCEV, PCEV (Cayman) Limited, PLDT, The Chase Manhattan Bank, as escrow agent, Metropolitan Bank and Trust Company, as administrative agent and the creditors named therein (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001)
4(d)	The Cooperation Agreement, dated January 31, 2006, entered into by and among PLDT, First Pacific, Metro Pacific Corporation, Metro Asia Link Holdings, Inc., Metro Pacific Resources, Inc., Larouge B.V., Metro Pacific Assets Holdings, Inc., NTT Communications and NTT DoCoMo (incorporated by reference to Schedule 13D/A (Amendment No.2) as filed with the United States Securities and Exchange Commission by Nippon Telegraph and Telephone Corporation and NTT Communications Corporation on January 31, 2006)
6	Computation of Earnings Per Share
7	Calculation of Ratio of Earnings to Fixed Charges
8	Subsidiaries
12.1	Certification of Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
12.2	Certification of the Principal Financial Officer required by Rule 13a-14(a) of the Exchange Act
13.1	Certification of Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act
13.2	Certification of the Principal Financial Officer required by Rule 13a-14(b) of the Exchange Act