FIRST PACIFIC

FIRST PACIFIC COMPANY LIMITED

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(Incorporated with limited liability under the laws of Bermuda)
Website: http://www.firstpacific.com

(Stock Code: 00142)

OVERSEAS REGULATORY ANNOUNCEMENT

(This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.)

Please refer to the attached disclosures of Philippine Long Distance Telephone Company ("PLDT"), a major operating associate of First Pacific Company Limited, as filed with the Philippine Stock Exchange, in relation to the following:-

(i) SEC Form 17-C attached with the press release relating to PLDT's unaudited consolidated financial results for the nine months ended 30 September 2011; and

(ii) SEC Form 17-Q with Management's Discussion and Analysis together with PLDT's unaudited consolidated financial statements for the nine months ended 30 September 2011.

Dated this the 3rd day of November, 2011

As at the date of this announcement, the board of directors of First Pacific Company Limited comprises the following directors:

Anthoni Salim, *Chairman*
Manuel V. Pangilinan, *Managing Director and CEO*
Edward A. Tortorici
Robert C. Nicholson
Graham L. Pickles*
Prof. Edward K.Y. Chen*, *GBS, CBE, JP*
Tedy Djuhar
Ibrahim Risjad
Benny S. Santoso
Napoleon L. Nazareno
Jun Tang*
Dr. Christine K.W. Loh*, *JP, OBE, Chevalier de l'Ordre National du Merite*

** Independent Non-executive Directors*

COVER SHEET

P W - 5 5
S.E.C. Registration No.

P H I L I P P I N E   L O N G   D I S T A N C E
T E L E P H O N E   C O M P A N Y
(Company's Full Name)

R A M O N   C O J U A N G C O   B L D G .
M A K A T I   A V E .   M A K A T I   C I T Y
(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL	816-8534
Contact Person	Company Telephone Number

1 2 / 3 1	SEC FORM 17-C	0 6 Every 2nd Tuesday
Month Day Fiscal Year	FORM TYPE	Month Day Annual Meeting

C F D	N/A
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

2,181,658 As of September 30, 2011	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.1

1. November 3, 2011
Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

3. BIR Tax Identification No. 000-488-793

4. PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Exact name of issuer as specified in its charter

5. PHILIPPINES
Province, country or other jurisdiction of Incorporation

6. ____________ (SEC Use Only)
Industry Classification Code

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 1200
Address of principal office — Postal Code

8. (632) 816-8405
Issuer's telephone number, including area code

9. Not Applicable
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code and Sections 4 and 8 of the Revised Securities Act

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding

PLDT **pressrelease**

9M2011 CONSOLIDATED CORE NET INCOME AT ₱30.6 BILLION, DOWN 3% Y-O-Y
REPORTED NET INCOME ALSO AT ₱30.6 BILLION, DOWN 4% Y-O-Y
EBITDA AT ₱61.1 BILLION, LOWER BY 4%
FREE CASH FLOW UP 11% TO ₱36.5 BILLION
CELLULAR SUBSCRIBER BASE AT 47.7 MILLION
TOTAL BROADBAND SUBSCRIBERS AT 2.3 MILLION
DIGITEL TRANSACTION APPROVED, ACQUISITION COMPLETED

- **Consolidated core net income of ₱30.6 billion for 9M2011, 3% lower than the ₱31.4 billion net income in 9M10**
- **Consolidated reported net income for first nine months of 2011 at ₱30.6 billion, from the ₱32.0 billion recorded in the same period of 2010**
- **Consolidated service revenues decline 3% year-on-year to ₱103.2 billion**
- **Consolidated EBITDA margin dips to 59% of service revenues; consolidated EBITDA declines 4% to ₱61.1 billion**
- **Consolidated free cash flow at ₱36.5 billion for 9M2011, up 11% year-on-year**
- **Cellular subscriber base at 47.7 million, net additions of 2.1 million for the year**
- **Total broadband subscribers at 2.3 million; aggregate revenue contribution from broadband and internet services of ₱13.9 billion for 9M2011, 10% higher than last year**
- **Digitel transaction completed on 26th October**

MANILA, Philippines, 3rd November 2011 — Philippine Long Distance Telephone Company ("PLDT") (PSE: TEL) (NYSE: PHI) today announced its unaudited financial and operating results for the first nine months of 2011 with consolidated Reported Net Income declining to ₱30.6 billion, or 4%, from the ₱32.0 billion recorded in the same period last year. Core Net Income for the first nine months of 2011, net of exceptional items, declined 3% to ₱30.6 billion, from ₱31.4 billion in 2010, or partly because of a stronger peso. Had the peso remained stable, Core Net Income would have been higher by ₱700 million, or ₱31.3 billion, substantially similar with that of last year.

EBITDA margin dipped to 59%, from 60% in the same period in 2010 but similar to the EBITDA margin for FY2010. Consolidated EBITDA was lower by 4% at ₱61.1 billion compared with the first nine months of 2010, as lower cash operating expenses could not offset the 3% decline in revenues.

Consolidated free cash flow for the period reached ₱36.5 billion, a ₱3.8 billion or 11% improvement from last year. Consolidated capital expenditures for the period amounted to ₱14.5 billion for the first nine months of 2011. Capital expenditures will be utilized to improve the Group's broadband and cellular coverage and capacity and the modernization and upgrade of both our mobile and fixed networks.

A closer look at the underlying revenue mix shows the ongoing, secular transition of revenues coming from traditional businesses being gradually replaced by new revenue streams. Overall consolidated service revenues decreased by 3% to ₱103.2 billion, reflecting the combined effect of:

- a 13% rise in wireless broadband and mobile internet revenues, with the latter growing by 109%;
- a 13% increase in DSL revenues;
- a 4% improvement in corporate data revenues from fixed data and other network services to third parties;
- a 3% growth in ICT revenues primarily from BPO and data center operations
- a 7% decrease in combined cellular and fixed voice revenues; and
- a 4% reduction in cellular data/text revenues

In addition, approximately 26% of consolidated service revenues are directly or indirectly linked to the US Dollar, which weakened to the peso in the course of the year. Had the peso remained stable, service revenues would have been higher by ₱1.4 billion and the decline year-on-year would have been only 2%. Core net income would have reached ₱31.3 billion, comparable with the performance last year for the same period.

The Group's consolidated net debt remained at US$1.4 billion as at 30th September 2011. Gross debt at the end of September 2011 stood at US$2.1 billion. Net debt to EBITDA was stable at 0.7x. The Company's debt maturities continue to be well spread out, with over 60% due in and after 2014. The percentage of US Dollar-denominated debt to the Group's total debt portfolio is at 41%, down from 45% at the end of 2010. Taking into account our peso borrowings, our hedges and our U. S. Dollar cash holdings, only 21% of total debt remains unhedged. The Group's cash and short-term securities are invested primarily in bank placements and Government securities.

Broadband: Sustaining Momentum

The Group's combined broadband subscriber base increased by 14% from the end of 2010 to 2.3 million, representing net additions of 282,000 for PLDT group's various broadband services. Total broadband and internet revenues totaled ₱13.9 billion, a 10% growth rate year-on-year; they now account for 13% of consolidated service revenues.

SmartBro, Smart Communications Inc.'s ("Smart") wireless broadband service offered through its wholly-owned subsidiary Smart Broadband, Inc. - continued to expand as its wireless broadband subscriber base stood at over 1.5 million at the end of September 2011, over 1.1 million of whom were on *SmartBro's* prepaid service. Wireless broadband revenues, inclusive of mobile internet revenues, increased by 13% to ₱6.4 billion, compared with the ₱5.7 billion recorded in the first nine months of 2010. Moreover, mobile internet usage continues to grow strongly, with revenues increasing by 109%, from ₱0.5 million in the first nine months of 2010 to ₱1.1 billion in 2011. Mobile internet revenues in 3Q2011 were in fact 121% and 9% higher than revenues in 3Q2010 and 2Q2011, respectively. This upsurge is attributed to the increasing number of 3G/smartphones in the system and the availability of broadband packages and loads to suit specific customer preferences. In October 2011, Smart launched 2 Netphone models in the US$100-200 price range.

Wireless broadband revenues now account for 10% of Smart's wireless service revenues.

On the Fixed Line front, DSL subscribers increased by more than 82,000 from the end of 2010, bringing the total subscriber base to over 725,000 at the end of September 2011. Correspondingly, DSL revenues increased by 13% to ₱6.9 billion

Orlando B. Vea, Smart Chief Wireless Adviser, said, "The successful launch of Smart's Netphone – both the hardware device and its unique set of apps and services – and the exponential increase in mobile internet usage herald Smart's transformation to a "webtelco". As the market turns to smartphones, tablets and other smart screens, we will continue to be there with world-leading innovations for the Filipino consumers. The new Smart logo is part of that transformation story, reflecting the freedom, empowerment and richness in the digital experience that we enable."

Wireless: Managing the Transition

Wireless service revenues decreased by 5% to ₱67.3 billion for the first nine months of 2011, compared with the ₱70.4 billion recognized in the same period last year. Cellular voice revenues declined 7% to ₱29.3 billion, resulting from continuing intense competition and unlimited voice packages even as voice traffic increased by 50%. Cellular data/text revenues likewise fell 4% to ₱29.7 billion, with text volumes declining 6%. Smart continues to lead the industry in terms of both revenues and subscribers.

Wireless EBITDA for the first nine months fell 5% to ₱41.9 billion. EBITDA margin dropped to 62% from 63% in the same period in 2010 as a result of increased selling and promotions expenses, which were undertaken in order to protect market share and boost broadband usage.

The PLDT Group's total cellular subscriber base as at 30th September 2011 was 47.7 million subscribers, 5% or 2.1 million up from the end of 2010. Smart Buddy recorded net additions of 0.9 million subscribers to end with 26.6 million subscribers while *Talk 'N Text* likewise added approximately 0.6 million subscribers to end with 19.5 million subscribers. *Red Mobile*, the brand owned by Smart subsidiary, CURE, had about 1.6 million subscribers at the end of the period, having added 0.7 million new subscribers. Responding to renewed efforts, Smart's postpaid subscriber base rose to 476,000. The net addition of 55,000 post-paid subscribers for 3Q2011 alone is one of the highest in recent memory.

"We continue to manage the long tail of our traditional telco business, cognizant that revenues will continue to be pressured by declining yields brought about by the unlimited services. That said, we are elated with the growth of our broadband business and our massive investment in network modernization has already raised our network performance, with our subscribers enjoying a significantly enhanced customer experience," said **Napoleon L. Nazareno**, **President and CEO of PLDT and Smart**.

Smart continues to invest in its cellular and multi-platform broadband networks while upgrading its existing transmission, core and access facilities. Smart now has over 3,000 HSPA base stations and 1,200 HSPA+ base stations, more than double the 500 base stations in early September. As of mid-October, a total of 120 cities and municipalities nationwide now have HSPA+ coverage. Smart is also pursuing an aggressive roll-out of WiFi spots to augment its broadband coverage.

In a nationwide speed test conducted by an independent engineering firm, *SmartBro* was proven to be faster than the competition by an average of 0.74 Mbps.

The base station upgrades are only one part of the ₱67.0 billion system-wide network transformation program being undertaken by the PLDT Group. The program also involves the upgrading of other elements such as mobile switches, fiber optic backbone networks, and international cable systems, among others.

PLDT Fixed Line: Focusing on the Home and Enterprise

Fixed line service revenues decreased by 4% to ₱35.2 billion in the first nine months of 2011 from ₱36.8 billion in the same period in 2010 as the strong Peso impacted the business unfavorably. Had the peso remained stable, service revenues would have been higher by ₱400 million.

PLDT DSL generated ₱6.9 billion in revenues in the first nine months of 2011, up 13% from ₱6.1 billion in 2010. Third party corporate revenues grew 4% while domestic leased line and international leased line revenues were down 12% and 8%, respectively.

Anticipated declines in ILD, NLD and LEC continued with their combined revenues of ₱17.7 billion in the first nine months of 2011 lower by 6% compared with the ₱18.9 billion in the same period last year.

Fixed line EBITDA margin was stable at 49% for the first nine months of 2011 but higher than the 47% margin for the full year 2010. EBITDA margin for 3Q2011 stood at 51% compared with 48% in 3Q2010.

"We are pursuing our strategy of focusing on customer lines, such as the home and enterprise, and continue to roll-out various programs to serve these defined sectors. We are also nearing the completion of our NGN upgrade which should enable us to provide our customers with more advanced services in a more cost-efficient manner," declared **Nazareno**.

ICT: Registering Strong Results

The Group's information and communications technology ("ICT") business reported service revenues of ₱8.2 billion in the first nine months of 2011, an increase of 3% from the same period in 2010. Data center revenues continued to grow with a 20% improvement over the comparable period in 2010. Knowledge Processing Solutions increased 8% on the back of higher contributions from the medical billing and content solutions verticals. Revenues from the Customer Relationship Management, or call center, business declined 2%, having been negatively impacted by the Peso's appreciation. ICT also registered a 28% decline in internet and online gaming revenues with the sale of Digital Paradise and Level Up! as well as the transfer of Infocom's internet business to the Fixed Line.

68% of ICT's revenues are dollar-denominated - had the peso remained stable, service revenues for the period would have increased by ₱300 million.

EBITDA for the ICT business increased by 36% to ₱1.5 billion in the first nine months of 2011 as compared with ₱1.1 billion in 2010, as a result of the growth in service revenues and lower cash operating expenses. EBITDA margin at 19% was higher than the 14% recorded in the comparable period last year. ICT's revenues account for 7% of PLDT's consolidated revenues.

"SPi continues to streamline its operations while expanding its services which now includes a more comprehensive and integrated suite of solutions covering revenue cycle management, health information recovery management, clinical documentation improvement and education and ASP hosting," stated **Nazareno**.

Meralco: Maintaining Growth

Our financial results for the first nine months of 2011 reflect the equity accounting of our share in Meralco's earnings through PLDT Communications and Energy Ventures, Inc. ("PCEV"), formerly Piltel. For the first nine months of 2011, PCEV's income was derived mainly from its direct equity share in the net income of Manila Electric Company ("Meralco") and its holdings in Beacon Electric Asset Holdings, Inc. ("Beacon Electric"). PCEV owns 50% of Beacon Electric, a special purpose company jointly owned by PCEV and Metro Pacific Investments Corporation.

As of 30th September 2011, Beacon beneficially owned 442.4 million shares, equivalent to a 39.2% interest in Meralco. PCEV's direct holdings in Meralco consisted of 68.8 million Meralco common shares (approximately 6.1% interest), retained by PCEV after the transfer of its 154.2 million shares to Beacon in March 2010. PCEV acquired its original 20% investment in Meralco in July 2009.

On 19th October 2011, PCEV's Board of Directors approved the transfer to Beacon of PCEV's remaining investment in 68.8 million Meralco common shares for a total consideration of ₱ 15.14 billion. The transfer of the Meralco shares was implemented through a cross sale in the Philippine Stock Exchange on 25th October 2011. With the transfer, PCEV no longer directly holds any shares in Meralco while Beacon beneficially owns approximately 45.3% of Meralco's common shares.

PCEV's Board of Directors also approved on 19th October 2011 the subscription to 1.199 million Beacon preferred shares for a total cash consideration of₱15.14 billion. Beacon's preferred shares are entitled to liquidation preference and carry annual cumulative dividends of 7%. PCEV and Beacon entered into a Subscription Agreement on 20th October 2011 for said preferred shares.

Meralco's Consolidated Reported Net Income for the first nine months of 2011 of ₱10.0 billion increased by 25% against the same period in 2010. The higher Consolidated Reported Net Income was due to higher electricity sales and lower interest charges.

Consolidated Core Net Income for the first six months of 2011, which excludes one-time, exceptional charges, amounted to ₱11.7 billion, a 27% improvement over the Core Net Income for the same period in 2010 of ₱9.2 billion. Basic Earnings per share on reported net income amounted to ₱8.83 while Core Earnings per share was at ₱10.354.

Consolidated Core EBITDA amounted to ₱21.6 billion, representing a consolidated core EBITDA margin on gross revenues of 11%; calculated on distribution revenue alone which represents Meralco's business today, Core EBITDA margin for the period stood at 48%.

Consolidated revenues, of which electricity accounted for 97% of the total, increased by 2% to ₱192.9 billion. The improvement was due to higher volume of energy sold, increase in transmission charges and the distribution rate adjustment implemented in January 2011.

Total revenues from electricity sales for the nine months ended 30th September 2011 amounted to ₱187.0 billion, or 2% higher than the amount for the same period in 2010. Generation and transmission charges, which accounted for 72% of the total electric revenues, was lower with average generation and transmission charges of ₱6.10 per kWh in 2011 compared with ₱6.13 kWh or 0.5% lower than 2010. Distribution revenues, which accounted for 19% of the total, reflected an average distribution charge of ₱1.61 per kWh. The actual average distribution rate realized reflects the impact of lower sales to the residential sector and higher volume sold to commercial and industrial customers.

Total energy sold for the first nine months of 2011 was 22,725GWh, or 0.3% higher compared with 22,660GWh in the same period in 2010. Customer count grew by 3% to almost 5 million compared with September 2010, with the residential sector leading the growth in subscribers with a 4% increase, followed by commercial customers at 3%. Industrial customers and streetlights remained at the 2010 level. In terms of contribution to energy sold by value, the commercial, residential and industrial sectors accounted for 39%, 31% and 29%, respectively.

Total costs and expenses for the nine months ended 30th September 2011 amounted to ₱177.7 billion or 0.5% higher than the comparative period last year.

Consolidated free cash flow was ₱16.7 billion as of 30th September 2011, attributable to the higher net cash generated from operations as a result of the distribution adjustments and improved collection performance.

Digitel

Last 26th October 2011, the National Telecommunications Commission ("NTC") approved the acquisition by PLDT of JG Summit Holdings, Inc. ("JGS") and certain other parties' ownership interest in Digital Telecommunications Philippines, Inc. ("Digitel"). The acquisition covers 3.3 billion common shares, representing approximately 51.55% of Digitel, zero-coupon bonds issued by Digitel to JGS which are convertible into 18.6 billion Digitel common shares, and the assumption of ₱34.1 billion of advances made by JGS to Digitel. The 3.3 billion Digitel shares were crossed in the Philippine Stock Exchange on 26th October 2011. In return, PLDT issued 27.7 million new PLDT shares to JGS, representing approximately 12.9% of the expanded capital stock of PLDT.

With the closing of the transaction, Manuel V. Pangilinan, PLDT Chairman, was elected Chairman of Digitel, along with Mr. Vea, who was named President and CEO. 3 other PLDT representatives were likewise elected as directors to the Digitel Board in addition to 2 independent directors.

The transaction also requires PLDT to conduct a tender offer for the remaining 48.45% Digitel shares held by minority shareholders. Digitel minority shareholders can opt to be paid in cash at ₱1.6033 per share or swap Digitel shares for PLDT shares at a ratio of 1,599.28 Digitel shares for every one PLDT share. The timing of the tender offer is being finalized and it is PLDT's intention to delist Digitel upon completion of the tender offer exercise.

As part of the NTC's approval, PLDT has committed to the following:

- Retention of the Sun Cellular brand and the provision of "unlimited" types of services;
- Divestment by Smart of its ownership in CURE, including CURE's 10MHz of 3G frequency in the 2100 band; and
- Maintenance of high quality services to its subscribers/customers.

Conclusion and Outlook

"We are pleased to have concluded finally the acquisition of Digitel, and are eager to proceed with our plans to put the best of both companies together and pass the benefits of synergy on to our subscribers.

"In the meantime, we still have to contend with the bearish outlook of the industry as consumer behavior and technology continue to transform our business at a pace much faster than anticipated, intense competition expected to continue. Revenues from the legacy businesses of voice and text are now yielding to revenues from data and broadband services. This transformation process will (i) take some time before a 1-for-1 revenue substitution process can be achieved, and (ii) mean higher margins being replaced by lower ones, at least in the short-term. We are therefore faced with the sobering prospect that revenues are likely to continue declining for the foreseeable future, and costs rising in the near term -- as we need to follow through with improving and upgrading our networks, including Digitel's, and seeding the market with internet-based enabled devices.

"Clearly, PLDT is at another threshold," **said Manuel V. Pangilinan, PLDT Chairman**.

"In this light, and as the year draws to a close, our near-term outlook requires us to consider a guidance number lower than the ₱40.5 billion Core Net Income we provided in the early part of this year. For the full year 2011, we anticipate Core Net Income to be ₱39.0 billion. However, I am confident that with the requisite people, networks, products and quality of service in place, we can return to more profitable times as soon as practicable. We have been there before, we have done it," **concluded Mr. Pangilinan.**

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	PLDT Consolidated					
	Nine months ended September 30			Three months ended September 30		
	2011	2010	% Change	2011	2010	% Change
	(Unaudited)			(Unaudited)		
Service revenues	**103,245**	**106,716**	**-3%**	**33,605**	**34,560**	**-3%**
Total revenues	**105,026**	**108,272**	**-3%**	**34,244**	**35,065**	**-2%**
Expenses	**64,345**	**64,916**	**-1%**	**21,810**	**21,615**	**1%**
Income before income tax	**40,326**	**43,032**	**-6%**	**12,232**	**13,655**	**-10%**
Provision for income tax	**9,719**	**10,974**	**-11%**	**2,921**	**3,218**	**-9%**
Net income - As Reported	**30,618**	**31,988**	**-4%**	**9,319**	**10,309**	**-10%**
EPS, Basic [(a)]	**162.11**	**169.38**	**-4%**	**49.28**	**54.54**	**-10%**
EPS, Diluted [(a)]	**162.06**	**169.38**	**-4%**	**49.28**	**54.54**	**-10%**
Core net income[(b)]	**30,602**	**31,423**	**-3%**	**9,579**	**10,193**	**-6%**
EPS, Basic [(c)]	**162.02**	**166.36**	**-3%**	**50.67**	**53.93**	**-6%**
EPS, Diluted [(c)]	**161.98**	**166.36**	**-3%**	**50.67**	**53.93**	**-6%**

[(a)] *EPS based on reported net income*
[(b)] *Net income as adjusted for the net effect of gain/loss on FX and derivative transactions, additional depreciation charges and recognition of deferred tax assets*
[(c)] *EPS based on core net income*

This press release may contain some statements which constitute "forward-looking statements" that are subject to a number of risks and uncertainties that could affect PLDT's business and results of operations. Although PLDT believes that expectations reflected in any forward-looking statements are reasonable, it can give no guarantee of future performance, action or events.

For further information, please contact:

Anabelle L. Chua	Melissa V. Vergel de Dios	Ramon R. Isberto
Tel No: 816-8213	**Tel No: 816-8024**	**Tel No: 511-3101**
Fax No: 844-9099	**Fax No: 810-7138**	**Fax No: 893-5174**

About PLDT

PLDT is the leading telecommunications provider in the Philippines. Through its three principal business groups – fixed line, wireless, and information and communications technology – PLDT offers a wide range of telecommunications services across the Philippines' most extensive fiber optic backbone and fixed line, and cellular network.

PLDT is listed on the Philippine Stock Exchange (PSE:TEL) and its American Depositary Shares are listed on the New York Stock Exchange (NYSE:PHI). PLDT has one of the largest market capitalizations among Philippine listed companies.

Further information can be obtained by visiting the web at www.pldt.com.

SEC Number **PW-55**

File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

September 30, 2011

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

November 3, 2011

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2011.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

P	H	I	L	I	P	P	I	N	E		L	O	N	G		D	I	S	T	A	N	C	E

T	E	L	E	P	H	O	N	E		C	O	M	P	A	N	Y					

(Company's Full Name)

R	A	M	O	N		C	O	J	U	A	N	G	C	O		B	L	D	G	.			

M	A	K	A	T	I		A	V	E	.		M	A	K	A	T	I		C	I	T	Y

(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0	6	Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

2,181,658
As of September 30, 2011
Total No. of Stockholders

N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE ("SRC") AND SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended <u>September 30, 2011</u>

2. SEC Identification Number <u>PW-55</u> 3. BIR Tax Identification No. <u>000-488-793</u>

4. <u>Philippine Long Distance Telephone Company</u>
   Exact name of registrant as specified in its charter

5. <u>Republic of the Philippines</u>
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. <u>Ramon Cojuangco Building, Makati Avenue, Makati City</u> <u>0721</u>
   Address of registrant's principal office Postal Code

8. <u>(632) 816-8556</u>
   Registrant's telephone number, including area code

9. <u>Not Applicable</u>
   Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	186,756,672 shares as at September 30, 2011

11. Are any or all of these securities listed on the Philippine Stock Exchange?

    Yes [X] No [ ]

12. Check whether the registrant

    (a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

    Yes [X] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [X] No [ ]

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at September 30, 2011 (unaudited) and December 31, 2010 (audited) and for the nine months ended September 30, 2011 and 2010 (unaudited) and related notes (pages F-1 to F-120) are filed as part of this report on Form 17-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (please see Note 2 – Summary of Significant Accounting Policies to the accompanying unaudited consolidated financial statements for the list of these subsidiaries, including a description of their respective principal business activities and PLDT's direct and/or indirect equity interest).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which is virtually converged with International Financial Reporting Standards as issued by the International Accounting Standards Board except for some transitional differences. PFRS differs in certain significant respects from U.S. generally accepted accounting principles, or U.S. GAAP.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.80 to US$1.00, the volume weighted average exchange rate as at September 30, 2011 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, actual results may differ materially from any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php266,870	Php277,815	(Php10,945)	(4)
Property, plant and equipment – net	157,186	163,184	(5,998)	(4)
Cash and cash equivalents and short-term investments	33,275	37,347	(4,072)	(11)
Total equity attributable to equity holders of PLDT	85,994	97,069	(11,075)	(11)
Total debt	90,703	89,646	1,057	1
Net debt[1] to equity ratio	0.67x	0.54x	–	–

	Nine Months Ended September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)	Increase (Decrease) Amount	%
Consolidated Income Statements				
Revenues	Php105,026	Php108,272	(Php3,246)	(3)
Expenses	64,345	64,916	(571)	(1)
Other expenses	355	324	31	10
Income before income tax	40,326	43,032	(2,706)	(6)
Net income for the period	30,607	32,058	(1,451)	(5)
Net income attributable to equity holders of PLDT:				
Reported net income	30,618	31,988	(1,370)	(4)
Core income	30,602	31,423	(821)	(3)
EBITDA	61,071	63,813	(2,742)	(4)
EBITDA margin[2]	59%	60%	–	–
Reported earnings per common share:				
Basic	162.11	169.38	(7.27)	(4)
Diluted	162.06	169.38	(7.32)	(4)
Core earnings per common share[3]:				
Basic	162.02	166.36	(4.34)	(3)
Diluted	161.98	166.36	(4.38)	(3)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	54,987	54,026	961	2
Net cash used in investing activities	14,360	15,502	(1,142)	(7)
Capital expenditures	*14,548*	*16,923*	*(2,375)*	*(14)*
Net cash used in financing activities	44,633	49,676	(5,043)	(10)
Operational Data				
Number of cellular subscribers	47,736,961	44,112,343	3,624,618	8
Number of fixed line subscribers	1,868,759	1,839,962	28,797	2
Number of broadband subscribers:	2,299,815	1,990,694	309,121	16
Fixed Line	*725,232*	*630,984*	*94,248*	*15*
Wireless	*1,574,583*	*1,359,710*	*214,873*	*16*
Number of employees:	29,298	29,624	(326)	(1)
Fixed Line	*7,449*	*8,047*	*(598)*	*(7)*
Wireless	*5,210*	*5,494*	*(284)*	*(5)*
Information and Communications Technology	*16,639*	*16,083*	556	*3*

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
September 30, 2011	Php43.80	Php43.26
December 31, 2010	43.81	45.12
September 30, 2010	43.92	45.60
December 31, 2009	46.43	47.64

[1] *Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable).*

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

[3] *Core earnings per common share, or EPS, is measured as core income divided by the weighted average number of common shares for the period.*

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 bases for management's decision to allocate resources and evaluate operating performance:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Connectivity Unlimited Resource Enterprise, our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. and Subsidiaries, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc; knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM; internet access and online gaming services provided by Infocom Technologies, Inc. (on July 1, 2011, ePLDT transferred the internet business of Infocom to PLDT), Digital Paradise, Inc., or Digital Paradise (on April 1, 2011, ePLDT sold its entire 75% stake in Digital Paradise), netGames, Inc. and Level Up!, Inc., or Level Up! (on July 11, 2011, ePLDT sold its entire 57.51% interest in Level Up!); and bills printing and other value-added services, or VAS, provided by ePDS, Inc., or ePDS (on August 24, 2011, ePLDT increased its equity interest in ePDS from 50% to 67%).

Performance Indicators

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

EBITDA

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. The core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis of determining the level of dividend payouts to shareholders and basis of granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Management's Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the nine months ended September 30, 2011 and 2010 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(in millions)	
Consolidated EBITDA	Php61,071	Php63,813
Amortization of intangible assets	(207)	(268)
Depreciation and amortization	(20,176)	(19,953)
Asset impairment on non-financial assets	(7)	(236)
	40,681	43,356
Equity share in net earnings of associates and joint ventures	1,520	1,419
Interest income	1,013	914
Gains (losses) on derivative financial instruments – net	626	(495)
Foreign exchange gains – net	106	1,667
Financing costs – net	(4,772)	(5,051)
Other income	1,152	1,222
Consolidated income before income tax	40,326	43,032
Provision for income tax	(9,719)	(10,974)
Consolidated net income for the period	Php30,607	Php32,058

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(in millions)	
Consolidated core income for the period	Php30,602	Php31,423
Gains (losses) on derivative financial instruments – net, excluding hedge cost	894	(137)
Foreign exchange gains – net	100	1,678
Core income adjustment on equity share in net earnings of associates and joint ventures	(453)	(282)
Others	(364)	(232)
Net tax effect of aforementioned adjustments	(161)	(462)
Net income attributable to equity holders of PLDT	30,618	31,988
Net income (loss) attributable to non-controlling interests	(11)	70
Consolidated net income for the period	Php30,607	Php32,058

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2011 and 2010. Majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in millions)		
For the nine months ended September 30, 2011					
Revenues	Php68,280	Php35,687	Php8,520	(Php7,461)	Php105,026
Expenses	36,963	27,383	7,656	(7,657)	64,345
Other income (expenses)	310	(966)	497	(196)	(355)
Income before income tax	31,627	7,338	1,361	–	40,326
Provision for income tax	7,591	2,028	100	–	9,719
Net income for the period/Segment profit for the period	24,036	5,310	1,261	–	30,607
EBITDA for the period	41,940	17,395	1,540	196	61,071
EBITDA margin for the period[(1)]	62%	49%	19%	–	59%
Core income for the period	24,926	4,649	1,027	–	30,602
For the nine months ended September 30, 2010					
Revenues	71,515	37,043	8,261	(8,547)	108,272
Expenses	37,407	28,291	7,931	(8,713)	64,916
Other income (expenses)	1,472	(1,670)	40	(166)	(324)
Income before income tax	35,580	7,082	370	–	43,032
Provision for (benefit from) income tax	8,983	2,011	(20)	–	10,974
Net income for the period/Segment profit for the period	26,597	5,071	390	–	32,058
EBITDA for the period	44,323	18,189	1,135	166	63,813
EBITDA margin for the period[(1)]	63%	49%	14%	–	60%
Core income for the period	26,242	4,686	495	–	31,423

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(in millions)					
Revenues	(Php3,235)	(5)	(Php1,356)	(4)	Php259	3	Php1,086	(13)	(Php3,246)	(3)
Expenses	(444)	(1)	(908)	(3)	(275)	(3)	1,056	(12)	(571)	(1)
Other income (expenses)	(1,162)	(79)	704	(42)	457	1,143	(30)	18	(31)	10
Income before income tax	(3,953)	(11)	256	4	991	268	–	–	(2,706)	(6)
Provision for income tax	(1,392)	(15)	17	1	120	600	–	–	(1,255)	(11)
Net income for the period/Segment profit for the period	(2,561)	(10)	239	5	871	223	–	–	(1,451)	(5)
EBITDA for the period	(2,383)	(5)	(794)	(4)	405	36	30	18	(2,742)	(4)
Core income for the period	(1,316)	(5)	(37)	(1)	532	107	–	–	(821)	(3)

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

On a Consolidated Basis

We registered consolidated revenues of Php105,026 million in the first nine months of 2011, a decrease of Php3,246 million, or 3%, as compared with Php108,272 million in the same period in 2010, primarily due to a decline in our service revenues by Php3,471 million as a result of decreases in cellular and satellite revenues from our wireless business, lower fixed line business revenues particularly international and national long distance, and local exchange services, and ICT's lower internet and online gaming business revenues. These were partly offset by the increase in data and other network services of our fixed line business and higher revenues from knowledge processing solutions, customer relationship management and data center and others of our ICT business.

The following table shows the breakdown of our consolidated revenues for the nine months ended September 30, 2011 and 2010 by business segment:

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php68,280	65	Php71,515	66	(Php3,235)	(5)
Fixed line	35,687	34	37,043	34	(1,356)	(4)
Information and communications technology	8,520	8	8,261	8	259	3
Inter-segment transactions	(7,461)	(7)	(8,547)	(8)	1,086	(13)
Consolidated	Php105,026	100	Php108,272	100	(Php3,246)	(3)

Consolidated expenses decreased by Php571 million, or 1%, to Php64,345 million in the first nine months of 2011 from Php64,916 million in the same period in 2010, largely as a result of decreases in compensation and employee benefits, rent, asset impairment, taxes and licenses, and amortization of intangible assets, partly offset by higher selling and promotions, professional and other contracted services, depreciation and amortization, repairs and maintenance, and insurance and security services.

The following table shows the breakdown of our consolidated expenses for the nine months ended September 30, 2011 and 2010 by business segment:

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php36,963	57	Php37,407	58	(Php444)	(1)
Fixed line	27,383	43	28,291	43	(908)	(3)
Information and communications technology	7,656	12	7,931	12	(275)	(3)
Inter-segment transactions	(7,657)	(12)	(8,713)	(13)	1,056	(12)
Consolidated	Php64,345	100	Php64,916	100	(Php571)	(1)

Consolidated other expenses in the first nine months of 2011 amounted to Php355 million, an increase of Php31 million, or 10%, from Php324 million in the same period in 2010 primarily due to the combined effects of the following: (i) a decrease in net foreign exchange gains by Php1,561 million due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) a decrease in other income by Php70 million mainly due to net loss on disposal of fixed assets of Php12 million in the first nine months of 2011 as against net gain on disposal of fixed assets of Php552 million in the same period in 2010, partially offset by pension benefit income recognized by PLDT; (iii) higher interest income by Php99 million due to a higher average level of peso short-term investments and a higher average peso interest rate partially offset by the impact of the appreciation of the Philippine peso on dollar placements; (iv) net increase in equity share in net earnings of associates and joint ventures by Php101 million; (v) a decrease in net financing costs by Php279 million mainly due to lower interest on loans and other related items on account of lower average loan balances across our businesses, partially offset by higher accretion on amortization of debt discount and higher financing charges; and (vi) net gains on derivative financial instruments of Php626 million in the first nine months of 2011 as against a net loss of Php495 million in the same period in 2010 mainly due to the effect of wider U.S. dollar and peso interest rate differentials and lower level of appreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in the first nine months of 2011.

The following table shows the breakdown of our consolidated other expenses for the nine months ended September 30, 2011 and 2010 by business segment:

					Change	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php310	(87)	Php1,472	(454)	(Php1,162)	(79)
Fixed line	(966)	272	(1,670)	515	704	(42)
Information and communications technology	497	(140)	40	(12)	457	1,143
Inter-segment transactions	(196)	55	(166)	51	(30)	18
Consolidated	(Php355)	100	(Php324)	100	(Php31)	(10)

Consolidated net income decreased by Php1,451 million, or 5%, to Php30,607 million in the first nine months of 2011 from Php32,058 million in the same period in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php3,246 million; (ii) an increase in consolidated other expenses by Php31 million; (iii) a decrease in consolidated expenses by Php571 million; and (iv) a decrease in consolidated provision for income tax by Php1,255 million, which was mainly due to lower taxable income from our wireless business. Our consolidated basic and diluted EPS decreased to Php162.11 and Php162.06 in the first nine months of 2011, respectively, from consolidated basic and diluted EPS of Php169.38 in the same period in 2010. Our weighted average number of outstanding common shares was approximately 186.8 million in each of the nine months ended September 30, 2011 and 2010.

The following table shows the breakdown of our consolidated net income for the nine months ended September 30, 2011 and 2010 by business segment:

					Change	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php24,036	79	Php26,597	83	(Php2,561)	(10)
Fixed line	5,310	17	5,071	16	239	5
Information and communications technology	1,261	4	390	1	871	223
Consolidated	Php30,607	100	Php32,058	100	(Php1,451)	(5)

EBITDA

Our consolidated EBITDA was Php61,071 million in the first nine months of 2011, a decrease of Php2,742 million, or 4%, as compared with Php63,813 million in the same period in 2010 primarily due to a decline in service revenues across our businesses, partly offset by lower cash operating expenses, mainly compensation and employee benefits, rent, and taxes and licenses, and lower provision for uncollectible receivables.

The following table shows the breakdown of our consolidated EBITDA for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php41,940	69	Php44,323	69	(Php2,383)	(5)
Fixed line	17,395	28	18,189	29	(794)	(4)
Information and communications technology	1,540	3	1,135	2	405	36
Inter-segment transactions	196	–	166	–	30	18
Consolidated	Php61,071	100	Php63,813	100	(Php2,742)	(4)

Core Income

Our consolidated core income was Php30,602 million in the first nine months of 2011, a decrease of Php821 million, or 3%, as compared with Php31,423 million in the same period in 2010 primarily due to a decrease in consolidated revenues , partially offset by decreases in consolidated provision for income tax, consolidated expenses and consolidated other expenses. Our consolidated basic core EPS also decreased to Php162.02 in the first nine months of 2011 from Php166.36 in the same period in 2010 and our consolidated diluted core EPS decreased to Php161.98 in the first nine months of 2011 from Php166.36 in the same period in 2010.

The following table shows the breakdown of our consolidated core income for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php24,926	82	Php26,242	83	(Php1,316)	(5)
Fixed line	4,649	15	4,686	15	(37)	(1)
Information and communications technology	1,027	3	495	2	532	107
Consolidated	Php30,602	100	Php31,423	100	(Php821)	(3)

On a Business Segment Basis

Wireless

Revenues

Revenues generated from our wireless business amounted to Php68,280 million in the first nine months of 2011, a decrease of Php3,235 million, or 5%, from Php71,515 million in the same period in 2010.

The following table summarizes our total revenues from our wireless business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php61,905	91	Php64,819	91	(Php2,914)	(4)
Wireless broadband, satellite and others						
Wireless broadband	4,839	7	4,781	7	58	1
Satellite and others	528	1	845	1	(317)	(38)
	67,272	99	70,445	99	(3,173)	(5)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,008	1	1,070	1	(62)	(6)
Total Wireless Revenues	Php68,280	100	Php71,515	100	(Php3,235)	(5)

Service Revenues

Our wireless service revenues decreased by Php3,173 million, or 5%, to Php67,272 million in the first nine months of 2011 as compared with Php70,445 million in the same period in 2010, mainly as a result of lower revenues from our cellular, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as domestic text messaging services on the back of pervasive multiple SIM card ownership and increasing patronage of social networking sites, partially offset by an increase in international short messaging service, or SMS, as well as higher VAS revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for the first nine months of 2011 were lower as compared with the same period in 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues amounted to 99% in each of the first nine months of 2011 and 2010.

Cellular Service

Our cellular service revenues in the first nine months of 2011 amounted to Php61,905 million, a decrease of Php2,914 million, or 4%, from Php64,819 million in the same period in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in each of the first nine months of 2011 and 2010.

The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the nine months ended September 30, 2011 and 2010:

	2011	2010	Decrease Amount	%
	(in millions)			
Cellular service revenues	Php61,905	Php64,819	(Php2,914)	(4)
By service type	*60,082*	*62,880*	*(2,798)*	*(4)*
Prepaid	55,453	57,919	(2,466)	(4)
Postpaid	4,629	4,961	(332)	(7)
By component	*60,082*	*62,880*	*(2,798)*	*(4)*
Voice	29,282	31,350	(2,068)	(7)
Data	30,800	31,530	(730)	(2)
Others[1]	*1,823*	*1,939*	*(116)*	*(6)*

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

	2011	2010	Increase (Decrease) Amount	%
Cellular subscriber base	47,736,961	44,112,343	3,624,618	8
Prepaid	47,259,793	43,693,765	3,566,028	8
Smart Buddy	*26,129,264*	*25,175,430*	*953,834*	*4*
Talk 'N Text	*19,522,683*	*18,136,858*	*1,385,825*	*8*
Red Mobile	*1,607,846*	*381,477*	*1,226,369*	*321*
Postpaid	477,168	418,578	58,590	14
Smart	*476,744*	*418,578*	*58,166*	*14*
Red Mobile[1]	*424*	*–*	*424*	*100*
Systemwide traffic volumes (in millions)				
Calls (in minutes)	27,884	19,653	8,231	42
Domestic	25,580	17,399	8,181	47
Inbound	*998*	*1,086*	*(88)*	*(8)*
Outbound	*24,582*	*16,313*	*8,269*	*51*
International	2,304	2,254	50	2
Inbound	*2,163*	*2,098*	*65*	*3*
Outbound	*141*	*156*	*(15)*	*(10)*
SMS/Data count (in hits)	243,420	259,492	(16,072)	(6)
Text messages	242,122	258,352	(16,230)	(6)
Domestic	241,677	257,977	(16,300)	(6)
Inbound	*6,551*	*5,855*	*696*	*12*
Outbound	*235,126*	*252,122*	*(16,996)*	*(7)*
Bucket-Priced/Unlimited	221,882	238,485	(16,603)	(7)
Standard	13,244	13,637	(393)	(3)
International	445	375	70	19
Inbound	*243*	*143*	*100*	*70*
Outbound	*202*	*232*	*(30)*	*(13)*
Value-Added Services	1,273	1,122	151	13
Financial Services	25	18	7	39

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

Revenues attributable to our prepaid cellular services amounted to Php55,453 million in the first nine months of 2011, a decrease of Php2,466 million, or 4%, as compared with Php57,919 million in the same period in 2010. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of the first nine months of 2011 and 2010. Revenues attributable to Smart's postpaid cellular service amounted to Php4,629 million in the first nine months of 2011, a decrease of Php332 million, or 7%, as compared with Php4,961 million earned in the same period in 2010, and accounted for 8% of cellular voice and data revenues in each of the first nine months of 2011 and 2010.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php2,068 million, or 7%, to Php29,282 million in the first nine months of 2011 from Php31,350 million in the same period in 2010 primarily due to a decrease in domestic and international call revenues. Cellular voice services accounted for 47% and 48% of our cellular service revenues in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our cellular voice revenues for the nine months ended September 30, 2011 and 2010:

			Decrease	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php3,665	Php3,897	(Php232)	(6)
Outbound	13,987	14,981	(994)	(7)
	17,652	18,878	(1,226)	(6)
International				
Inbound	10,465	11,159	(694)	(6)
Outbound	1,165	1,313	(148)	(11)
	11,630	12,472	(842)	(7)
Total	Php29,282	Php31,350	(Php2,068)	(7)

Domestic voice service revenues decreased by Php1,226 million, or 6%, to Php17,652 million in the first nine months of 2011 from Php18,878 million in the same period in 2010 primarily due to a decrease in domestic outbound call revenues by Php994 million, or 7%, to Php13,987 million in the first nine months of 2011 from Php14,981 million in the same period in 2010 mainly due to higher traffic volume of unlimited calls at lower yield. In addition, revenues from our domestic inbound voice service decreased by Php232 million, or 6%, to Php3,665 million in the first nine months of 2011 from Php3,897 million in the same period in 2010 as a result of a decrease in inbound call traffic from domestic fixed line and mobile carriers. Domestic outbound call volumes increased by 8,269 million minutes, or 51%, to 24,582 million minutes in the first nine months of 2011 from 16,313 million minutes in the same period in 2010, while domestic inbound call volumes decreased by 88 million minutes, or 8%, to 998 million minutes in the first nine months of 2011 from 1,086 million minutes in the same period in 2010. The overall increase in domestic call traffic was due to higher call volumes resulting from unlimited voice offerings.

International voice service revenues decreased by Php842 million, or 7%, to Php11,630 million in the first nine months of 2011 from Php12,472 million in the same period in 2010 primarily due to a decline in international inbound voice service revenues by Php694 million, or 6%, to Php10,465 million in the first nine months of 2011 from Php11,159 million in the same period in 2010, as well as a decline in international outbound voice service revenues by Php148 million, or 11%, to Php1,165 million in the first nine months of 2011 from Php1,313 million in the same period in 2010. The decline in international voice service revenues was due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010. Conversely, international inbound and outbound calls totaled 2,304 million minutes in the first nine months of 2011, an increase of 50 million minutes, or 2%, from 2,254 million minutes in the same period in 2010 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 (on-net). Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in these denominations:

- "*Smartalk Lite 15*" which offers unlimited calls from 1:00 a.m. to 11:00 a.m. for Php15 to any subscriber on the Smart network;
- "*Smartalk 20*" which offers one day of unlimited calls for Php20 to the first six Smart network numbers the subscriber calls;
- "*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.

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

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

Through the *Talk 'N Text 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 introduced its unlimited voice and SMS offering which utilizes a secondary network powered by Smart. *Red Mobile Unlimited* offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers.

Smart introduced its new postpaid consumable plan, *Smart All-in Plans*, which enables subscribers to choose from Smart's different services, such as unlimited calling, texting, or mobile browsing, all charged within the subscriber's monthly service fee.

Smart also offers the *Smart Unli Postpaid Plan* which is available in two variants: Unli postpaid299 which offers unlimited text to any subscriber on the Smart network and Unli postpaid599 which offers unlimited call and text to any subscriber on the Smart network.

Smart Unli Data Plan offers unlimited internet browsing on postpaid basis, best suited for subscribers with high data usage. Bundled with the latest gadgets, and with free texts and calls, subscribers may choose among the following packages: Plan1500, Plan2000, Plan3000 and Plan4000.

In September 2011, Smart launched the *Netphone*, Smart's newest Android phone, offering a collection of mobile applications which include easy access to social streaming sites, the Smart Center, a global directory and phone messaging, through the *SmartNet*.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php730 million, or 2%, to Php30,800 million in the first nine months of 2011 from Php31,530 million in the same period in 2010. Cellular data services accounted for 50% and 49% of our cellular service revenues in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data revenues for the nine months ended September 30, 2011 and 2010:

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php26,788	Php28,669	(Php1,881)	(7)
Bucket-Priced/Unlimited	*16,590*	*18,022*	*(1,432)*	*(8)*
Standard	*10,198*	*10,647*	*(449)*	*(4)*
International	1,566	995	571	57
	28,354	29,664	(1,310)	(4)
Value-added services				
Internet-based[(1)]	1,130	541	589	109
MMS-based[(2)]	339	456	(117)	(26)
SMS-based[(3)]	442	526	(84)	(16)
Pasa Load[(4)]	503	315	188	60
	2,414	1,838	576	31
Financial services	32	28	4	14
Total	Php30,800	Php31,530	(Php730)	(2)

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

Text messaging-related services contributed revenues of Php28,354 million in the first nine months of 2011, a decrease of Php1,310 million, or 4%, as compared with Php29,664 million in the same period in 2010, and accounted for 92% and 94% of our total cellular data revenues in the first nine months of 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS traffic although SMS yields have stabilized. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced/unlimited plans totaled Php16,590 million in the first nine months of 2011, a decrease of Php1,432 million, or 8%, as compared with Php18,022 million in the same period in 2010. Standard text messaging revenues decreased by Php449 million, or 4%, to Php10,198 million in the first nine months of 2011 from Php10,647 million in the same period in 2010. On the other hand, the increase in international text messaging revenues was mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

Bucket-priced/unlimited text messages decreased by 16,603 million, or 7%, to 221,882 million in the first nine months of 2011 from 238,485 million in the same period in 2010. Standard text messages also declined by 393 million, or 3%, to 13,244 million in the first nine months of 2011 from 13,637 million in the same period in 2010.

VAS contributed revenues of Php2,414 million in the first nine months of 2011, an increase of Php576 million, or 31%, as compared with Php1,838 million in the same period in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php589 million, or 109%, to Php1,130 million in the first nine months of 2011 from Php541 million in the same period in 2010, and *Pasa Load* by Php188 million, or 60%, to Php503 million in the first nine months of 2011 from Php315 million in the same period in 2010.

Subscriber Base, ARPU and Churn Rates

As at September 30, 2011, Smart, including *Talk 'N Text* and *Red Mobile* subscribers totaled 47,736,961, an increase of 3,624,618, or 8%, over their combined cellular subscriber base of 44,112,343 as at September 30, 2010. Our cellular prepaid subscriber base grew by 3,566,028, or 8%, to 47,259,793 as at September 30, 2011 from 43,693,765 as at September 30, 2010, and our cellular postpaid subscriber base increased by 58,590, or 14%, to 477,168 as at September 30, 2011 from 418,578 as at September 30, 2010. Prepaid subscribers accounted for 99% each of our total subscriber base as at September 30, 2011 and 2010.

Our net subscriber activations for the nine months ended September 30, 2011 and 2010 were as follows:

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Prepaid	2,045,360	2,800,667	(755,307)	(27)
Smart Buddy	*835,821*	*1,412,616*	*(576,795)*	*(41)*
Talk 'N Text	*555,302*	*1,086,145*	*(530,843)*	*(49)*
Red Mobile	*654,237*	*301,906*	*352,331*	*117*
Postpaid	55,593	(16,965)	72,558	(428)
Smart	*55,169*	*(16,965)*	*72,134*	*(425)*
Red Mobile[1]	*424*	*–*	*424*	*100*
Total	2,100,953	2,783,702	(682,749)	(25)

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

Prepaid and postpaid subscribers reflected net activations of 2,045,360 and 55,593, respectively, in the first nine months of 2011 as compared with net activations of 2,800,667 and net reductions of 16,965 in the same period in 2010.

For *Smart Buddy* subscribers, the average monthly churn rate in the first nine months of 2011 and 2010 were 5.1% and 4.9%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.7% and 5.4% in the first nine months of 2011 and 2010, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 14.7% and 79.0% in the first nine months of 2011 and 2010, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 2.3% and 2.4% for the first nine months of 2011 and 2010, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 2011 and 2010:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
Smart Buddy	Php199	Php221	(22)	(10)	Php158	Php175	(17)	(10)
Talk 'N Text	124	138	(14)	(10)	103	114	(11)	(10)
Red Mobile	38	7	31	443	32	6	26	433
Prepaid – Blended[3]	163	184	(21)	(11)	131	148	(17)	(11)
Postpaid								
Smart	1,581	1,671	(90)	(5)	1,170	1,257	(87)	(7)
Red Mobile[4]	381	–	381	100	372	–	372	100
Postpaid – Blended[5]	1,580	1,671	(91)	(5)	1,170	1,257	(87)	(7)
Prepaid and Postpaid Blended[6]	176	199	(23)	(12)	141	159	(18)	(11)

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content-provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*
(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but excluding inbound roaming revenues, 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) *Red Mobile postpaid was launched on March 17, 2011.*
(5) *The average monthly ARPU of Smart and Red Mobile postpaid.*
(6) *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 the first nine months of 2011 was Php163, a decrease of 11%, as compared with Php184 in the same period in 2010. The decrease was primarily due to a decline in the average domestic outbound call and text messaging revenue per subscriber, as well as a drop in the average international inbound voice revenue per subscriber in the first nine months of 2011 as compared with the same period in 2010. On a net basis, prepaid blended average monthly ARPU in the first nine months of 2011 was Php131, a decrease of 11%, as compared with Php148 in the same period in 2010.

Postpaid blended gross and net average monthly ARPU decreased to Php1,580 and Php1,170, respectively, in the first nine months of 2011 as compared with Php1,671 and Php1,257, respectively, in the same period in 2010. Prepaid and postpaid gross average monthly blended ARPU was Php176 in the first nine months of 2011, a decrease of 12%, as compared with Php199 in the same period in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 11% to Php141 in the first nine months of 2011 from Php159 in the same period in 2010.

Our average monthly prepaid and postpaid ARPUs per quarter for the first three quarters of 2011and for each of the four quarters of 2010 were as follows:

	Prepaid						Postpaid			
	Smart Buddy		Talk 'N Text		Red Mobile		Smart		Red Mobile[1]	
	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]
2011										
First Quarter	Php205	Php163	Php129	Php106	Php32	Php27	Php1,610	Php1,205	Php133	Php133
Second Quarter	203	162	126	105	43	37	1,638	1,206	413	413
Third Quarter	188	148	117	97	39	32	1,494	1,100	431	410
2010										
First Quarter	232	184	140	115	11	8	1,686	1,286	–	–
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	–	–

(1) *Red Mobile postpaid was launched on March 17, 2011.*
(2) *Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(3) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.*

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php58 million, or 1%, to Php4,839 million in the first nine months of 2011 from Php4,781 million in the same period in 2010, primarily due to the 16% growth in broadband subscriber base, partially offset by the decline in ARPU.

SBI offers a number of wireless broadband services and had a total of 1,556,633 subscribers as at September 30, 2011, an increase of 218,668 subscribers, or 16%, as compared with 1,337,965 subscribers as at September 30, 2010. Our postpaid wireless broadband subscriber base increased by 17,095 subscribers, or 4%, to 449,599 subscribers as at September 30, 2011 from 432,504 subscribers as at September 30, 2010, while our prepaid wireless broadband subscriber base increased by 201,573 subscribers, or 22%, to 1,107,034 subscribers as at September 30, 2011 from 905,461 subscribers as at September 30, 2010.

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

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php317 million, or 38%, to Php528 million in the first nine months of 2011 from Php845 million in the same period in 2010, primarily due to the sale of Mabuhay Satellite's transponders on July 1, 2010 and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php62 million, or 6%, to Php1,008 million in the first nine months of 2011 as compared with Php1,070 million in the same period in 2010 primarily due to the lower quantity of broadband data modems sold.

Expenses

Expenses associated with our wireless business in the first nine months of 2011 amounted to Php36,963 million, a decrease of Php444 million, or 1%, from Php37,407 million in the same period in 2010. A significant portion of this decrease was attributable to lower expenses related to rent, compensation and employee benefits, taxes and licenses, and asset impairment, partially offset by higher expenses related to selling and promotions, depreciation and amortization, and repairs and maintenance. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 54% and 52% in the first nine months of 2011 and 2010, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php10,542	29	Php10,127	27	Php415	4
Rent	6,038	16	7,233	19	(1,195)	(17)
Compensation and employee benefits[(1)]	4,330	12	4,815	13	(485)	(10)
Repairs and maintenance	3,924	11	3,651	10	273	7
Selling and promotions	3,479	9	2,862	8	617	22
Cost of sales	2,759	7	2,748	7	11	–
Professional and other contracted services	2,208	6	2,145	6	63	3
Taxes and licenses	1,174	3	1,324	3	(150)	(11)
Communication, training and travel	700	2	685	2	15	2
Insurance and security services	621	2	593	2	28	5
Asset impairment	430	1	486	1	(56)	(12)
Amortization of intangible assets	81	–	75	–	6	8
Other expenses	677	2	663	2	14	2
Total	Php36,963	100	Php37,407	100	(Php444)	(1)

(1) *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 Php415 million, or 4%, to Php10,542 million in the first nine months of 2011 on account of additional depreciation relating to decommissioned cellular facilities covered by the network modernization program.

Rent expenses decreased by Php1,195 million, or 17%, to Php6,038 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in satellite rental, partially offset by the increase in cell site, leased line and pole charges. In the first nine months of 2011, we had 6,060 cell sites, 10,466 cellular/mobile broadband base stations and 2,748 fixed wireless broadband-enabled base stations, as compared with 5,778 cell sites, 9,733 cellular/mobile broadband base stations and 2,219 fixed wireless broadband-enabled base stations in the same period in 2010.

Compensation and employee benefits expenses decreased by Php485 million, or 10%, to Php4,330 million primarily due to lower salaries and employee benefits as a result of lower headcount, and lower MRP costs, partially offset by the higher provision for pension benefits and LTIP. Employee headcount decreased to 5,210 in the first nine months of 2011 as compared with 5,494 in the same period in 2010.

Repairs and maintenance expenses increased by Php273 million, or 7%, to Php3,924 million mainly due to higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and other work equipment, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Selling and promotion expenses increased by Php617 million, or 22%, to Php3,479 million primarily due to higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Cost of sales increased by Php11 million to Php2,759 million primarily due to higher cost of handsets sold.

Professional and other contracted service fees increased by Php63 million, or 3%, to Php2,208 million primarily due to the increase in consultancy, contracted service, market research, corporate membership and bill printing fees, partly offset by lower management, customer relationship management service, technical service and outsourced service fees.

Taxes and licenses decreased by Php150 million, or 11%, to Php1,174 million primarily due to lower business-related taxes and license fees.

Communication, training and travel expenses increased by Php15 million, or 2%, to Php700 million primarily due to higher courier charges, travel expenses and fuel consumption for vehicles, partially offset by lower communication, freight and hauling, and training expenses.

Insurance and security services increased by Php28 million, or 5%, to Php621 million primarily due to higher site security expense, partially offset by lower insurance premiums.

Asset impairment decreased by Php56 million, or 12%, to Php430 million primarily due to lower provision for uncollectible receivables.

Amortization of intangible assets increased by Php6 million, or 8%, to Php81 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses increased by Php14 million, or 2%, to Php677 million primarily due to higher various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income for the nine months ended September 30, 2011 and 2010:

	2011	2010	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,370	Php1,285	Php85	7
Interest income	584	520	64	12
Foreign exchange gains – net	60	800	(740)	(93)
Losses on derivative financial instruments – net	–	(1)	1	100
Financing costs – net	(2,044)	(1,992)	(52)	3
Others	340	860	(520)	(60)
Total	Php310	Php1,472	(Php1,162)	(79)

Our wireless business' other income amounted to Php310 million in the first nine months of 2011, a decrease of Php1,162 million, or 79%, from Php1,472 million in the same period in 2010 primarily due to the combined effects of the following: (i) decrease in net foreign exchange gains by Php740 million on account of revaluation of foreign currency-denominated assets and liabilities due to the lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) higher net financing costs by Php52 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level of loan balances, and lower average interest and foreign exchange rates; (iii) increase in interest income by Php64 million mainly due to a higher average level of peso short-term investments and a higher average interest rate in the first nine months of 2011; (iv) increase in equity share in net earnings of associates by Php85 million mainly due to the increase in PCEV's direct and indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; and (v) decrease in other income by Php520 million mainly due to lower gain on disposal of fixed assets, income from insurance claims and consultancy.

For the nine months ended September 30, 2011, Meralco's reported and core income amounted to Php9,951 million and Php11,663 million, respectively, as compared with Php7,966 million and Php9,154 million, respectively, in the same period in 2010. These results were due to the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission as compared with the first nine months of 2010. 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 results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,422 million and Php1,875 million, respectively, in the first nine months of 2011 and Php1,284 million and Php1,566 million, respectively, in the same period in 2010.

Provision for Income Tax

Provision for income tax decreased by Php1,392 million, or 15%, to Php7,591 million in the first nine months of 2011 from Php8,983 million in the same period in 2010 due to lower taxable income and increased savings from the use of the optional standard deduction method in computing for taxable income. The effective tax rate for our wireless business was 24% in the first nine months of 2011 as compared with 25% in the same period in 2010.

Net Income

Our wireless business recorded a net income of Php24,036 million in the first nine months of 2011, a decrease of Php2,561 million, or 10%, from Php26,597 million recorded in the same period in 2010 on account of a decline in wireless revenues by Php3,235 million and a decrease in other income by Php1,162 million, partially offset by lower provision for income tax by Php1,392 million and a decrease in wireless-related expenses by Php444 million.

EBITDA

Our wireless business' EBITDA decreased by Php2,383 million, or 5%, to Php41,940 million in the first nine months of 2011 from Php44,323 million in the same period in 2010 primarily due to a decline in our wireless revenues, partly offset by lower cash operating expenses particularly rent, compensation and employee benefits, and taxes and licenses, as well as lower provision for uncollectible receivables.

Core Income

Our wireless business' core income decreased by Php1,316 million, or 5%, to Php24,926 million in the first nine months of 2011 from Php26,242 million in the same period in 2010 on account of a decrease in wireless revenues and lower other income, partially offset by lower provision for income tax and a decrease in wireless-related expenses.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php35,687 million in the first nine months of 2011, a decrease of Php1,356 million, or 4%, from Php37,043 million in the same period in 2010.

The following table summarizes our total revenues from our fixed line business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php11,179	31	Php11,559	31	(Php380)	(3)
International long distance	3,546	10	3,987	11	(441)	(11)
National long distance	3,022	9	3,401	9	(379)	(11)
Data and other network	16,369	46	16,605	45	(236)	(1)
Miscellaneous	1,127	3	1,225	3	(98)	(8)
	35,243	99	36,777	99	(1,534)	(4)
Non-Service Revenues:						
Sale of computers, *PLP* units and SIM cards	444	1	266	1	178	67
Total Fixed Line Revenues	Php35,687	100	Php37,043	100	(Php1,356)	(4)

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 Php1,534 million, or 4%, to Php35,243 million in the first nine months of 2011 from Php36,777 million in the same period in 2010 due to a decrease across our fixed line service revenues.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php11,179	Php11,559	(Php380)	(3)
Number of fixed line subscribers	1,868,759	1,839,962	28,797	2
Postpaid	1,775,043	1,709,919	65,124	4
Prepaid	93,716	130,043	(36,327)	(28)
Number of fixed line employees	7,449	8,047	(598)	(7)
Number of fixed line subscribers per employee	251	229	22	10

Revenues from our local exchange service decreased by Php380 million, or 3%, to Php11,179 million in the first nine months of 2011 from Php11,559 million in the same period in 2010 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation charges, as well as a decrease in the average number of postpaid wired lines as a result of higher disconnections, partially offset by the increase in postpaid *PLP* lines. *PLP* wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 32% in each of the first nine months of 2011 and 2010.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php3,546	Php3,987	(Php441)	(11)
Inbound	3,023	3,398	(375)	(11)
Outbound	523	589	(66)	(11)
International call volumes (in million minutes, except call ratio)	1,425	1,278	147	12
Inbound	1,295	1,123	172	15
Outbound	130	155	(25)	(16)
Inbound-outbound call ratio	10.0:1	7.2:1	–	–

Our total international long distance service revenues decreased by Php441 million, or 11%, to Php3,546 million in the first nine months of 2011 from Php3,987 million in the same period in 2010 primarily due to the decrease in the average settlement rate, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010 and the decrease in outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 10% and 11% in the first nine months of 2011 and 2010, respectively.

Our revenues from inbound international long distance service decreased by Php375 million, or 11%, to Php3,023 million in the first nine months of 2011 from Php3,398 million in the same period in 2010 due to the decrease in the average settlement rate and the effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by an increase in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php66 million, or 11%, to Php523 million in the first nine months of 2011 from Php589 million in the same period in 2010 primarily due to the decline in outbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010, resulting in a decrease in the average billing rates to Php43.37 in the first nine months of 2011 from Php45.84 in the same period in 2010, partially offset by the increase in average collection rate in dollar terms.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2011 and 2010:

			Decrease	
	2011	**2010**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php3,022	Php3,401	(Php379)	(11)
National long distance call volumes (in million minutes)	787	966	(179)	(19)

Our national long distance service revenues decreased by Php379 million, or 11%, to Php3,022 million in the first nine months of 2011 from Php3,401 million in the same period in 2010 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services 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 9% in each of the first nine months of 2011 and 2010.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the nine months ended September 30, 2011 and 2010:

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Data and other network service revenues (in millions)	Php16,369	Php16,605	(Php236)	(1)
Domestic	12,094	11,960	134	1
Broadband	*7,141*	*6,327*	*814*	*13*
DSL	6,930	6,138	792	13
WeRoam	211	189	22	12
Leased Lines and Others	*4,953*	*5,633*	*(680)*	*(12)*
International				
Leased Lines and Others	*4,275*	*4,645*	*(370)*	*(8)*
Subscriber base:				
Broadband	*743,182*	*652,729*	*90,453*	*14*
DSL	725,232	630,984	94,248	15
WeRoam	17,950	21,745	(3,795)	(17)
SWUP	*19,490*	*14,690*	*4,800*	*33*

Our data and other network services posted revenues of Php16,369 million in the first nine months of 2011, a decrease of Php236 million, or 1%, from Php16,605 million in the same period in 2010 primarily due to a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service, and the decrease in international data revenues resulting from the termination of transponder sub-lease agreements with customers, as well as lower revenues from i-Gate and Fibernet, partially offset by an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*. The percentage contribution of this service segment to our fixed line service revenues accounted for 46% and 45% in the first nine months of 2011 and 2010, respectively.

Domestic

Domestic data services contributed Php12,094 million in the first nine months of 2011, an increase of Php134 million, or 1%, as compared with Php11,960 million in the same period in 2010 mainly due to higher DSL revenues, *Shops.Work Unplugged*, or *SWUP*, and internet protocol-virtual private network, or IP-VPN subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services accounted for 74% and 72% in the first nine months of 2011 and 2010, respectively.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies). Broadband data revenues amounted to Php7,141 million in the first nine months of 2011, an increase of Php814 million, or 13%, from Php6,327 million in the same period in 2010 primarily due to the higher revenue contribution of DSL which contributed revenues of Php6,930 million in the first nine months of 2011 from Php6,138 million in the same period in 2010 as a result of the increase in the number of subscribers. DSL revenues accounted for 42% and 37% of total data and other network service revenues in the first nine months of 2011 and 2010, respectively. DSL subscribers increased by 15% to 725,232 subscribers as at September 30, 2011 from 630,984 subscribers in the same period in 2010. *WeRoam* revenues amounted to Php211 million in the first nine months of 2011, an increase of Php22 million, or 12%, from Php189 million in the same period in 2010 in contrast to a decrease in subscriber base by 17% to 17,950 subscribers in first nine months of 2011 from 21,745 subscribers in the same period in 2010.

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 September 30, 2011, *SWUP* has a total subscriber base of 19,490 up by 33% from 14,690 subscribers in the same period in 2010. Leased lines and other data revenues amounted to Php4,953 million in the first nine months of 2011, a decrease of Php680 million, or 12%, from Php5,633 million in the same period in 2010 primarily due to a decrease in Diginet revenues, partially offset by the higher revenues from IP-VPN. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 30% and 34% in the first nine months of 2011 and 2010, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues decreased by Php370 million, or 8%, to Php4,275 million in the first nine months of 2011 from Php4,645 million in the same period in 2010 primarily resulting from the termination of transponder sub-lease agreement with customers, a decrease in revenues from i-Gate, Fibernet and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar, partially offset by the growth in international managed data services. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 26% and 28% in the first nine months of 2011 and 2010, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues decreased by Php98 million, or 8%, to Php1,127 million in the first nine months of 2011 from Php1,225 million in the same period in 2010 mainly due to a decrease in directory advertising and facilities management fees, partially offset by higher 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 the first nine months of 2011 and 2010.

Non-service Revenues

Non-service revenues increased by Php178 million, or 67%, to Php444 million in the first nine months of 2011 from Php266 million in the same period in 2010 primarily due to the sale of several managed PABX and *OnCall* solution in the first nine months of 2011, no similar transaction was recognized in the same period in 2010, as well as higher computer-bundled sales, partially offset by lower sale of *PLP* units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php27,383 million in the first nine months of 2011, a decrease of Php908 million, or 3%, as compared with Php28,291 million in the same period in 2010. The decrease was primarily due to lower expenses related to compensation and employee benefits, asset impairment, rent, depreciation and amortization, repairs and maintenance, and communication, training and travel, partly offset by higher expenses related to professional and other contracted services, cost of sales, and selling and promotions. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 77% and 76% in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php9,084	33	Php9,267	33	(Php183)	(2)
Compensation and employee benefits[1]	7,111	26	7,497	27	(386)	(5)
Repairs and maintenance	3,000	11	3,159	11	(159)	(5)
Professional and other contracted services	2,511	9	2,274	8	237	10
Rent	1,841	7	2,069	7	(228)	(11)
Selling and promotions	959	3	919	3	40	4
Asset impairment	726	3	982	4	(256)	(26)
Taxes and licenses	585	2	608	2	(23)	(4)
Cost of sales	426	2	369	1	57	15
Communication, training and travel	416	2	456	2	(40)	(9)
Insurance and security services	351	1	325	1	26	8
Amortization of intangible assets	7	–	–	–	7	100
Other expenses	366	1	366	1	–	–
Total	Php27,383	100	Php28,291	100	(Php908)	(3)

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

Depreciation and amortization charges decreased by Php183 million, or 2%, to Php9,084 million due to a lower depreciable asset base in the first nine months of 2011 as compared with the same period in 2010.

Compensation and employee benefits expenses decreased by Php386 million, or 5%, to Php7,111 million primarily due to lower salaries and employee benefits as a result of a lower headcount, as well as lower provisions for pension and LTIP costs, partially offset by higher MRP costs. Employee headcount decreased to 7,449 in the first nine months of 2011 as compared with 8,047 in the same period in 2010.

Repairs and maintenance expenses decreased by Php159 million, or 5%, to Php3,000 million primarily due to decreases in maintenance costs on buildings, IT software and electricity costs, partially offset by higher maintenance costs on central office and telecom equipment.

Professional and other contracted services increased by Php237 million, or 10%, to Php2,511 million primarily due to higher consultancy fees, contracted services, management fees and technical service fees, partially offset by lower bill printing and legal fees.

Rent expenses decreased by Php228 million, or 11%, to Php1,841 million due to a decrease in satellite link, international leased circuit and pole rental charges, partially offset by an increase in domestic leased circuit and office rental charges.

Selling and promotion expenses increased by Php40 million, or 4%, to Php959 million primarily due to higher public relations expense, as well as higher spending on advertising and promotions, and commission expenses.

Asset impairment decreased by Php256 million, or 26%, to Php726 million mainly due to lower provision for uncollectible receivables and impairment charges on payphone assets and investment in 2010.

Taxes and licenses decreased by Php23 million, or 4%, to Php585 million as a result of lower business-related taxes.

Cost of sales increased by Php57 million, or 15%, to Php426 million primarily due to the sale of several managed PABX and *OnCall* solutions in the first nine months of 2011; no similar transactions were recognized in the same period in 2010, as well as higher computer-bundled sales in relation to our DSL promotions, partially offset by lower sales of *PLP* units and SIM cards.

Communication, training and travel expenses decreased by Php40 million, or 9%, to Php416 million mainly due to lower training costs, and local travel expenses, partially offset by increases in mailing and courier charges, foreign travel expenses, communication charges and fuel consumption.

Insurance and security services increased by Php26 million, or 8%, to Php351 million primarily due to higher security services, and insurance and bond premiums.

Amortization of intangible assets amounted to Php7 million in the first nine months of 2011 primarily due to amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in January 2011.

Other expenses which pertain to various business and fixed line operational-related expenses remained relatively flat at Php366 million in the first nine months of 2011 and 2010.

Other Income

The following table summarizes the breakdown of our total fixed line-related other expenses for the nine months ended September 30, 2011 and 2010:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php626	(Php499)	Php1,125	225
Interest income	404	382	22	6
Foreign exchange gains – net	42	922	(880)	(95)
Financing costs – net	(2,700)	(2,941)	241	(8)
Others	662	466	196	42
Total	(Php966)	(Php1,670)	Php704	(42)

Our fixed line business' other expenses amounted to Php966 million in the first nine months of 2011, a decrease of Php704 million, or 42%, from Php1,670 million in the same period in 2010. The change was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php626 million in the first nine months of 2011 as against net losses on derivative financial instruments of Php499 in the same period in 2010 due to the effect of wider U.S. dollar and peso interest rate differentials and lower level of appreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in the first nine months of 2011; (ii) a decrease in net financing costs by Php241 million due to a decrease in interest expense on loans and related items on account of lower average interest rates and higher capitalized interest; (iii) an increase in other income by Php196 million mainly due to the pension benefit income recognized by PLDT; (iv) an increase in interest income by Php22 million due to a higher average level of peso short-term investments and higher average peso interest rates, partially offset by the impact of the appreciation of the Philippine peso on dollar placements; and (v) a decrease in foreign exchange gains by Php880 million on account of lower gains on net foreign exchange revaluation of foreign currency-denominated assets due to the effect of the appreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax amounted to Php2,028 million in the first nine months of 2011, an increase of Php17 million, or 1%, as compared with Php2,011 million in the same period in 2010 primarily due to higher taxable income. The effective tax rate of our fixed line business was 28% in each of the first nine months of 2011 and 2010.

Net Income

Our fixed line business contributed a net income of Php5,310 million in the first nine months of 2011, an increase of Php239 million, or 5%, as compared with Php5,071 million in the same period in 2010 primarily as a result of lower fixed line-related expenses by Php908 million and a decrease in other expenses by Php704 million, partially offset by the decrease in fixed line revenues by Php1,356 million and higher provision for income tax by Php17 million.

EBITDA

Our fixed line business' EBITDA decreased by Php794 million, or 4%, to Php17,395 million in the first nine months of 2011 from Php18,189 million in the same period in 2010 primarily due to a decline in revenues from all our fixed line services, partly offset by lower cash operating expenses, mainly compensation and employee benefits, rent, and repairs and maintenance, and lower provisions for uncollectible receivables.

Core Income

Our fixed line business' core income decreased by Php37 million, or 1%, to Php4,649 million in the first nine months of 2011 from Php4,686 million in the same period in 2010 primarily as a result of the decrease in fixed line revenues, partially offset by decreases in fixed line expenses and financing costs, 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 and other services.

Our ICT business generated revenues of Php8,520 million in the first nine months of 2011, an increase of Php259 million, or 3%, as compared with Php8,261 million in the same period in 2010. This increase was primarily due to higher revenue contributions from our knowledge processing solutions, data center and other businesses, partially offset by a decline in the revenue contribution of our internet and online gaming, customer relationship management businesses, and point-product sales.

The following table summarizes our total revenues from our ICT business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php4,179	49	Php3,876	47	Php303	8
Customer relationship management	2,108	25	2,152	26	(44)	(2)
Internet and online gaming	563	7	780	10	(217)	(28)
Data center and others	1,318	15	1,096	13	222	20
	8,168	96	7,904	96	264	3
Non-Service Revenues:						
Point-product sales	352	4	357	4	(5)	(1)
Total ICT Revenues	Php8,520	100	Php8,261	100	Php259	3

Service Revenues

Service revenues generated by our ICT business amounted to Php8,168 million in the first nine months of 2011, an increase of Php264 million, or 3%, as compared with Php7,904 million in the same period in 2010 primarily as a result of the continued growth in our knowledge processing solutions, and data center and other businesses, partially offset by a decline in our internet and online gaming, and customer relationship management businesses. As a percentage of our total ICT business revenues, service revenues accounted for 96% in each of the first nine months of 2011 and 2010, respectively.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php4,179 million in the first nine months of 2011, an increase of Php303 million, or 8%, from Php3,876 million in the same period in 2010. Dollar revenues increased by 13% partially offset by the appreciation of the Philippine peso to the U.S. dollar by 5%. Knowledge processing solutions business revenues accounted for 51% and 49% of total service revenues of our ICT business in the first nine months of 2011 and 2010, 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 Php44 million, or 2%, to Php2,108 million in the first nine months of 2011 from Php2,152 million in the same period in 2010 primarily due to lower dollar-denominated revenues by 2% and the effect of the appreciation of the Philippine peso to the U.S. dollar, partially offset by higher domestic sales by 11%. In total, we own and operate 6,022 seats with an average of 3,358 customer service representatives, or CSRs, in the first nine months of 2011, as compared with 7,163 seats with an average of 4,660 CSRs in the same period in 2010. SPi CRM had six and seven customer relationship management sites as at September 30, 2011 and 2010, respectively. Customer relationship management business revenues accounted for 26% and 27% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business decreased by Php217 million, or 28%, to Php563 million in the first nine months of 2011 from Php780 million in the same period in 2010 mainly due to the disposal of investments in Digital Paradise and Level Up!, as well as the transfer of the internet business of Infocom to PLDT. In April and July 2011, ePLDT disposed its non-core businesses, Digital Paradise and Level Up!, respectively, resulting to de-consolidation of the aforementioned entities. In addition, also in July 2011, Infocom transferred its internet business to PLDT. This was partially offset by the introduction of a new game and the strong performance of existing major games, higher sales from retail and desk printing transactions, as well as the addition of new clients. Our internet and online gaming business revenues accounted for 7% and 10% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*™, 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 Php1,318 million in the first nine months of 2011, an increase of Php222 million, or 20%, from Php1,096 million in the same period in 2010 primarily due to an increase in co-location or rental and managed service revenues, and the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 2011). Our data center business revenues accounted for 16% and 14% of total service revenues of our ICT business in the first nine months of 2011 and 2010, 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 Php5 million, or 1%, to Php352 million in the first nine months of 2011 from Php357 million in the same period in 2010 primarily due to the lower revenues from sales of CISCO hardware.

Expenses

Expenses associated with our ICT business totaled Php7,656 million in the first nine months of 2011, a decrease of Php275 million, or 3%, as compared with Php7,931 million in the same period in 2010, primarily due to lower expenses related to amortization of intangible assets, rent, cost of sales, asset impairment, communication, training and travel, selling and promotions, and repairs and maintenance, partially offset by higher expenses related to professional and other contracted services. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 90% and 96% in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our total ICT-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits[1]	Php4,534	59	Php4,533	57	Php1	–
Depreciation and amortization	550	7	559	7	(9)	(2)
Repairs and maintenance	533	7	549	7	(16)	(3)
Rent	455	6	512	6	(57)	(11)
Professional and other contracted services	417	6	377	5	40	11
Cost of sales	399	5	444	6	(45)	(10)
Communication, training and travel	313	4	341	4	(28)	(8)
Amortization of intangible assets	119	2	193	2	(74)	(38)
Taxes and licenses	83	1	83	1	–	–
Insurance and security services	59	1	58	1	1	2
Selling and promotions	58	1	76	1	(18)	(24)
Asset impairment	28	–	66	1	(38)	(58)
Other expenses	108	1	140	2	(32)	(23)
Total	Php7,656	100	Php7,931	100	(Php275)	(3)

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

Compensation and employee benefits increased by Php1 million to Php4,534 million mainly due to higher salaries and benefits, LTIP and provision for pension costs, partially offset by a decline in MRP costs. ePLDT and its subsidiaries' employee headcount increased by 556, or 3%, to 16,639 in the first nine months of 2011 as compared with 16,083 in the same period in 2010.

Depreciation and amortization decreased by Php9 million, or 2%, to Php550 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions and internet and online gaming businesses on account of fully depreciated assets and de-consolidation of Digital Paradise and Level Up!, partially offset by higher depreciation in relation to our data center expansion and customer relationship management businesses.

Repairs and maintenance expenses decreased by Php16 million, or 3%, to Php533 million primarily due to decrease in repairs and maintenance costs of site facilities and buildings particularly from our customer relationship management business, as well as the de-consolidation of Digital Paradise and Level Up!, partially offset by higher IT software repairs and maintenance costs.

Rent expenses decreased by Php57 million, or 11%, to Php455 million primarily due to lower office building charges and leased circuit rental.

Professional and other contracted services increased by Php40 million, or 11%, to Php417 million primarily due to higher consultancy, contracted service, legal and other professional fees, partially offset by lower audit fees.

Cost of sales decreased by Php45 million, or 10%, to Php399 million primarily due to the lower volume of sales due to the de-consolidation of Digital Paradise and Level Up!, and lower sales of hardware products, partially offset by the cost of sales incurred by ePDS due to the consolidation of its financial results effective August 2011.

Communication, training and travel expense decreased by Php28 million, or 8%, to Php313 million primarily due to lower trunkline charges incurred by our data center business. In addition, the de-consolidation of Digital Paradise and Level Up! contributed to the decline in expenses.

Amortization of intangible assets decreased by Php74 million, or 38%, to Php119 million due to the full impairment of intangible assets related to CyMed and SPi in December 2010.

Taxes and licenses consisting of business-related taxes amounted to Php83 million in the first nine months of 2011 and 2010.

Insurance and security services increased by Php1 million, or 2%, to Php59 million primarily due to higher security services.

Selling and promotion expenses decreased by Php18 million, or 24%, to Php58 million mainly due to our gaming business' lower promotional expenses due to prioritization of spending on profitable games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Asset impairment decreased by Php38 million, or 58%, to Php28 million primarily due to knowledge processing solutions and customer relationship management's asset impairment of unutilized business tax benefits in 2010.

Other expenses decreased by Php32 million, or 23%, to Php108 million mainly due to lower various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income for the nine months ended September 30, 2011 and 2010:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php150	Php134	Php16	12
Interest income	32	26	6	23
Foreign exchange gains (losses) – net	4	(55)	59	107
Financing costs	(35)	(132)	97	(73)
Gains on derivative financial instruments – net	–	5	(5)	(100)
Others	346	62	284	458
Total	Php497	Php40	Php457	1,143

Our ICT business' other income amounted to Php497 million in the first nine months of 2011, an increase of Php457 million from Php40 million in the same period in 2010 primarily due to the combined effects of the following: (i) an increase in other income by Php284 million mainly due to a gain on sale of Digital Paradise and Level Up!, a gain on sale of SPi's medical transcription business and reversal of prior year's provision by our data center business; (ii) a decrease in financing costs by Php97 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (iii) net foreign exchange gains of Php4 million in the first nine months of 2011 as against net foreign exchange losses of Php55 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 the first nine months of 2011; (iv) an increase in equity share in net earnings of associates by Php16 million mainly from Philweb Corporation, or Philweb; (v) an increase in interest income by Php6 million due to increase in short-term placements and bank deposits; and (vi) net gain on derivative financial instruments of Php5 million in the first nine months of 2010.

Provision for Income Tax

Provision for income tax amounted to Php100 million in the first nine months of 2011 as against a benefit from income tax of Php20 million in the same period in 2010 primarily due to higher taxable income in the first nine months of 2011.

Net Income

Our ICT business registered a net income of Php1,261 million, an increase of Php871 million, or 223%, in the first nine months of 2011 from Php390 million in the same period in 2010 mainly as a result of an increase in other income by Php457 million, an increase in ICT revenues by Php259 million and a decrease in ICT-related expenses by Php275 million, partially offset by an increase in provision for income tax by Php120 million.

EBITDA

Our ICT business' EBITDA increased by Php405 million, or 36%, to Php1,540 million in the first nine months of 2011 from Php1,135 million in the same period in 2010 primarily due to higher revenues and lower cash operating expenses particularly rent, cost of sales, communication, training and travel, selling and promotions, and repairs and maintenance.

Core Income

Our ICT business' core income amounted to Php1,027 million in the first nine months of 2011, an increase of Php532 million, or 107%, as compared with Php495 million in the same period in 2010 mainly as a result of increases in ICT revenues and other income, as well as lower ICT-related expenses, partially offset by an increase in provision for income tax.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2011 and 2010, as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2011 and December 31, 2010:

	Nine Months Ended September 30,	
	2011	**2010**
(in millions)	**(Unaudited)**	
Cash Flows		
Net cash provided by operating activities	Php54,987	Php54,026
Net cash used in investing activities	14,360	15,502
Capital expenditures	*14,548*	*16,923*
Net cash used in financing activities	44,633	49,676
Net decrease in cash and cash equivalents	3,962	11,417

	September 30,	**December 31,**
	2011	**2010**
(in millions)	**(Unaudited)**	**(Audited)**
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php70,172	Php75,879
Obligations under finance lease	6	9
	70,178	75,888
Current portion of interest-bearing financial liabilities:		
Notes payable	1,095	–
Long-term debt maturing within one year	19,436	13,767
Obligations under finance lease maturing within one year	7	34
	20,538	13,801
Total interest-bearing financial liabilities	90,716	89,689
Total equity attributable to equity holders of PLDT	85,994	97,069
	Php176,710	Php186,758
Other Selected Financial Data		
Total assets	Php266,870	Php277,815
Property, plant and equipment	157,186	163,184
Cash and cash equivalents	32,716	36,678
Short-term investments	559	669

Our consolidated cash and cash equivalents and short-term investments totaled Php33,275 million as at September 30, 2011. Principal sources of consolidated cash and cash equivalents in the first nine months of 2011 were cash flows from operating activities amounting to Php54,987 million, proceeds from availment of long-term debt and notes payable of Php12,569 million, interest received of Php1,032 million, dividends received of Php486 million and net proceeds from disposal of investments of Php245 million. These funds were used principally for: (1) dividend payments of Php41,484 million; (2) debt principal and interest payments of Php11,955 million and Php3,941 million, respectively; (3) capital outlays of Php14,548 million; (4) settlement of contingent consideration arising from business acquisitions of Php1,910 million; and (5) settlements of derivative financial instruments of Php475 million.

As at September 30, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php30,268 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2010 were cash flows from operating activities amounting to Php54,026 million, net proceeds from maturity of short-term investments of Php445 million, proceeds from availment of long-term debt of Php7,246 million and interest received of Php929 million. These funds were used principally for: (1) dividend payments of Php40,947 million; (2) capital outlays of Php16,923 million; (3) total debt principal and interest payments of Php10,732 million and Php4,124 million, respectively; and (4) settlement of derivative financial instruments of Php969 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php961 million, or 2%, to Php54,987 million in the first nine months of 2011 from Php54,026 million in the same period in 2010 primarily due to LTIP settlement in March 2010 and higher collection of receivables partially offset by higher settlement of various payables.

Cash flows provided by operating activities of our fixed line business increased by Php868 million, or 5%, to Php17,644 million in the first nine months of 2011 from Php16,776 million in the same period in 2010 primarily due to LTIP settlement in March 2010, lower level of settlement of accounts payable and other liabilities, partially offset by higher level of outstanding receivables. Cash flows provided by operating activities of our ICT business also increased by Php298 million, or 27%, to Php1,400 million in the first nine months of 2011 from Php1,102 million in the same period in 2010 primarily due to settlement of LTIP in March 2010 and higher collection of receivables, partially offset by the higher level of settlement of accounts payable, and other liabilities in the first nine months of 2011. On the other hand, cash flows from operating activities of our wireless business decreased by Php211 million, or 1%, to Php35,950 million in the first nine months of 2011 from Php36,161 million in the same period in 2010 primarily due to a higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of receivables and LTIP settlement in March 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php14,360 million in the first nine months of 2011, a decrease of Php1,142 million, or 7%, from Php15,502 million in the same period in 2010 primarily due to the combined effects of the following: (1) the decrease in capital expenditures by Php2,375 million; (2) payment for contingent consideration arising from business acquisitions by Php1,910 million; (3) the lower net proceeds from the maturity of short-term investments by Php387 million; (4) net proceeds from disposal of investments of Php245 million; and (5) higher interest received by Php103 million.

Our consolidated capital expenditures in the first nine months of 2011 totaled Php14,548 million, a decrease of Php2,375 million, or 14%, as compared with Php16,923 million in the same period in 2010 primarily due to the decrease in Smart's and PLDT's capital spending. PLDT's capital spending of Php8,049 million in the first nine months of 2011 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php5,976 million in the first nine months of 2011 was used primarily to modernize and expand its 2G/3G cellular network and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. ePLDT and its subsidiaries' capital spending of Php423 million in the first nine months of 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php100 million 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.

Dividends received in the first nine months of 2011 amounted to Php486 million, an increase of Php41 million, or 9%, as compared with Php445 million in the same period in 2010. The dividends received in the first nine months of 2011 and 2010 were from Meralco, Philweb and ePDS.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php44,633 million in the first nine months of 2011, a decrease of Php5,043 million, or 10%, as compared with Php49,676 million in the same period in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php5,323 million; (2) higher net availment of capital expenditures under long-term financing by Php728 million; (3) lower settlements of derivative financial instruments by Php494 million; (4) lower interest payments by Php183 million; (5) higher cash dividend payments by Php537 million; and (6) net increase in repayments of long-term debt and notes payable by Php1,223 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the nine months ended September 30, 2011 amounted to Php11,300 million and Php1,269 million, 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 Php11,955 million and Php3,941 million, respectively, in the first nine months of 2011.

Our consolidated long-term debt decreased by Php38 million to Php89,608 million in the first nine months of 2011 from Php89,646 million on December 31, 2010 mainly due to higher debt amortizations and prepayments, and the slight appreciation of the Philippine peso relative to the U.S. dollar to Php43.80 as at September 30, 2011 from Php43.81 as at December 31, 2010. The long-term debt level of PLDT increased by 6% to Php51,845 million while the debt level of Smart decreased by 7% to Php37,690 million, respectively, as at September 30, 2011 as compared with December 31, 2010.

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011. Tranche B amounting to Php1,000 million was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The aggregate amount of Php2,000 million remained outstanding as at September 30, 2011. The facility is payable in full five years from the respective issue dates.

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011 and remained outstanding as at September 30, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at September 30, 2011.

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011 and remained outstanding as at September 30, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php300 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The amount of Php300 million was fully drawn on April 28, 2011 and remained outstanding as at September 30, 2011.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php500 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at September 30, 2011.

On June 6, 2011, Smart signed a US$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Lender. The loan is payable over five years in eight equal semi-annual installments with the first installment on the eighteenth month from signing date. No availment has been made on this facility as at November 3, 2011.

On June 10, 2011, Smart signed a US$49 million five-year loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as Original Lender, Arranger and Facility Agent which will subsequently assign its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No availment has been made on this facility as at November 3, 2011.

On August 19, 2011, Smart signed a US$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with Finnish Export Credit, Plc., as Lender on Record. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., the Hong Kong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at November 3, 2011.

On October 28, 2011, PLDT priced Php5 billion 5-year, 7-year and 10-year fixed rate notes at yields of 5.4692%, 5.4963%, and 6.2188%, respectively. Proceeds from the facilities will be used to finance capital expenditures for network expansion and improvement and to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The notes will be issued on November 8, 2011.

Approximately Php52,175 million principal amount of our consolidated outstanding long-term debt as at September 30, 2011 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php30,534 million is attributable to Smart, Php21,568 million to PLDT, and the remainder to ePLDT's subsidiaries.

For a complete discussion of our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

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 unaudited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months.

Consolidated cash dividend payments in the first nine months of 2011 amounted to Php41,484 million as compared with Php40,947 million paid to shareholders in the same period in 2010. On August 2, 2011, we declared an interim regular cash dividend of Php78 per share, representing approximately 70% payout of our 2011 core EPS. 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 2010 core EPS.

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 approximately Php2 million each in the first nine months of 2011 and 2010.

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 September 30, 2011 and December 31, 2010. 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 six months ended June 30, 2011 and 2010. Please see to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's 10% Cumulative Convertible Preferred Stock Series A to FF, which were issued pursuant to the PLDT SIP, or the SIP Shares, effective on January 19, 2012, or the Redemption Date.

PLDT has fixed October 10, 2011, as the Record Date for the determination of holders of outstanding SIP Shares subject to Redemption, or the Holders of SIP Shares. In accordance with the terms and conditions of the SIP Shares, PLDT will, on the Redemption Date, pay each holder of SIP shares as of the Record Date, an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

On or before the Redemption Date, PLDT will set aside such amount required to fund the Redemption Price for the SIP Shares, or the Redemption Trust Fund. The Redemption Trust Fund will be deposited in a trust account in the name of a designated financial institution, as trustee (respectively, the "Trust Account" and the "Trustee"), which shall be available for the aforestated purpose. The Trustee will continue to hold in trust, for the benefit of those Holders of SIP Shares who have failed to claim their Redemption Price on the Redemption Date, or the Non-Claiming Holders, such amount equal to the unclaimed Redemption Price of the SIP Shares of the Non-Claiming Holders, or the Unclaimed Redemption Amount, for a period of 10 years from and after the Redemption Date or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time to, PLDT.

Notwithstanding that any stock certificate representing the SIP Shares is not surrendered for cancellation on the Redemption Date, the SIP Shares shall no longer be deemed outstanding and, from and after the Redemption Date, the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP Shares shall forthwith cease and terminate, except only the right to receive the Redemption Price, but without interest thereon.

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

In a circular issued by the PSE dated October 4, 2011, the PSE granted PLDT's request to stop the trading of the SIP Shares comprising Series A to FF effective October 5, 2011, in connection with the Redemption. Please see *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at September 30, 2011 and 2010, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php689 million and Php1,145 million as at September 30, 2011 and December 31, 2010, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at September 30, 2011 and June 30, 2011:

	Fair Values	
	September 30, 2011	**June 30, 2011**
(in millions)	**(Unaudited)**	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php81	Php78
Unlisted equity securities	69	68
Investments in debt securities	519	509
Advances and refundable deposits – net of current portion	848	924
Total noncurrent financial assets	1,517	1,579
Current Financial Assets		
Cash and cash equivalents	32,716	38,658
Short-term investments	559	600
Trade and other receivables – net	15,795	14,922
Derivative financial assets	233	267
Current portion of advances and refundable deposits	18	16
Total current financial assets	49,321	54,463
Total Financial Assets	**Php50,838**	**Php56,042**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php75,180	Php76,759
Derivative financial liabilities	1,759	1,980
Customers' deposits	1,674	1,596
Deferred credits and other noncurrent liabilities	11,898	10,211
Total noncurrent financial liabilities	90,511	90,546
Current Financial Liabilities		
Accounts payable	20,919	19,697
Accrued expenses and other current liabilities	28,941	28,476
Interest-bearing financial liabilities	20,538	22,449
Derivative financial liabilities	857	892
Dividends payable	2,468	2,191
Total current financial liabilities	73,723	73,705
Total Financial Liabilities	**Php164,234**	**Php164,251**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the nine months ended September 30, 2011 and for the six months months ended June 30, 2011:

	September 30, 2011	June 30, 2011
(in millions)	**(Unaudited)**	
Profit and Loss		
Interest income	Php1,013	Php645
Gains on derivative financial instruments – net	626	484
Accretion on financial liabilities – net	(807)	(555)
Interest on loans and other related items	(4,369)	(2,866)
Other Comprehensive Income		
Net gains on cash flow hedges	7	–
Net gains on available-for-sale financial assets – net of tax	3	1
	(Php3,527)	**(Php2,291)**

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in the first nine months of 2011 and 2010 was 4.3% and 4.1%, respectively. Moving forward, we expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

PLDT's Acquisition of Digital Telecommunications Philippines, Inc., or Digitel

On March 29, 2011, the Board Directors 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) 3.28 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 30, 2010 (the "Assets"). Digitel operates a fixed line business in certain parts of the country and 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 common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

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

The acquisition was completed on October 26, 2011 following the issuance by the SEC on July 29, 2011 of the confirmations referred to in clauses (ii) and (iv) above, by the NTC on October 26, 2011 of the approval referred to in clause (i) above, and by the PSE on October 26, 2011 of the approval referred to in clause (iii) above. PLDT's common shareholders had earlier approved the issuance of PLDT common shares as payment for the Assets during PLDT stockholders' meeting held on June 14, 2011.

As part of the NTC approval of the acquisition of Digitel by PLDT, or the Decision, the NTC approved the divestment plan presented by PLDT, which covers the following commitments:

- CURE will sell its *Red Mobile* business to Smart consisting of its subscriber base, brand and fixed assets;
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band, or the Affected Frequency, and related permits, or the Divestment Sale; and
- PLDT will have a period of nine months to effect the orderly migration of CURE's customers and an orderly transfer of CURE's assets to Smart with the least disruption and degradation of service to CURE's existing customers, or the Transition Period. The Transition Period will be reckoned from the date of promulgation of the Decision.

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

The Divestment Sale will be conducted within six months after the Transition Period provided the Decision shall have become final and executory. However, in the event that there will be a delay in the implementation of the Divestment Sale by reason of appeal or any legal challenge against the Decision, CURE will continue to pay Spectrum User's Fee and other related fees which will form part of the Cost Recovery Amount. While the Divestment Sale is pending, the PLDT group will not use the Affected Frequency.

Under the Securities Regulation Code, or SRC, PLDT is required to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the remaining non-controlling shareholders of Digitel upon completion of the acquisition of 51.55% interest. Under the tender offer, PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 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 Digitel shareholders. The 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 common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel. The 29.65 million new PLDT common shares will represent up to approximately 13.7% of the enlarged issued and outstanding common stock of PLDT.

Assuming full acceptance by the non-controlling shareholders of Digitel, the total transaction consideration would be approximately Php74.1 billion.

Digitel and DMPI have outstanding long-term debts that are guaranteed by JGS. The loans and guarantees contain representations and covenants applicable only to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI have provided the necessary notices and obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGS by PLDT as guarantor under these loans. The amendments to the covenants and the PLDT guarantee will take effect upon completion of the acquisition.

The PLDT shares that were issued as payment for the Assets are subject to a lock-up period of one (1) year during which JGS and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT.

PLDT has granted consents to the potential sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS has entered into with an associate company of First Pacific Company Limited and NTT DoCoMo, Inc., respectively. Following the sale of these shares, expected to occur within 30 days from the listing date of the PLDT shares issued to JGS, the JG Summit Group will own approximately 8.0% of PLDT's common shares.

Below is the pro-forma condensed statement of financial position and income statement based on the latest available financial information as at and for the nine months ended September 30, 2011, which was prepared for the purpose of presenting the impact of the transaction with the closing date of October 26, 2011. Additional assumptions used in preparing the pro-forma are detailed in the footnotes provided below.

The pro-forma adjustments will not affect the unaudited consolidated financial statements of PLDT and Digitel as at and for the nine months ended September 30, 2011 as business combinations are accounted for at the date of business combination, or October 26, 2011, and prospectively. Prior period's financial statements are not restated as a result of business combination transaction.

In the pro-forma condensed statement of financial position below, the purchase price consideration was allocated on the assumption that the book values as at September 30, 2011 equal their fair values. Allocation of purchase price consideration and the amount of goodwill recognized will be adjusted accordingly based on the result of the valuation by an independent appraiser, which will be engaged by PLDT.

As at September 30, 2011 (Unaudited)	PLDT	DIGITEL	PRO-FORMA ADJUSTMENT	PRO-FORMA RESULTS
		(in millions)		
ASSETS				
Noncurrent Assets				
Property, plant and equipment	Php157,186	Php81,446	Php–	Php238,632
Investments in associates and joint ventures	24,209	–	–	24,209
Goodwill and intangible assets	11,387	–	14,447[(1)]	25,834
Other noncurrent assets	17,492	3,252	138[(5)]	20,882
Total Noncurrent Assets	210,274	84,698	14,585	309,557
Current Assets				
Cash and cash equivalents	32,716	1,292	–	34,008
Other current assets	23,880	5,286	–	29,166
Total Current Assets	56,596	6,578	–	63,174
TOTAL ASSETS	266,870	91,276	14,585	372,731
EQUITY AND LIABILITIES				
Equity				
Paid in capital	61,753	8,976	55,517[(2)]	126,246
Retained earnings	25,375	(7,084)	6,761[(3)]	25,052
Equity reserve	–	(1,831)	1,831[(3)]	–
Other comprehensive income	(1,134)	–	–	(1,134)
Total Equity Attributable to Equity Holders of PLDT	85,994	61	64,109	150,164
Non-controlling interests	441	–	–	441
TOTAL EQUITY	86,435	61	64,109	150,605
Noncurrent Liabilities				
Interest-bearing financial liabilities – net of current portion	70,178	16,915	–	87,093
Other noncurrent liabilities	22,153	62,677	(54,587)[(4)]	30,243
Total Noncurrent Liabilities	92,331	79,592	(54,587)	117,336
Current Liabilities				
Accounts payable	22,732	8,675	–	31,407
Accrued expenses and other current liabilities	37,466	–	461[(5)]	37,927
Put-option liability	–	–	4,602[(1)]	4,602
Other current liabilities	27,906	2,948	–	30,854
Total Current Liabilities	88,104	11,623	5,063	104,790
TOTAL LIABILITIES	180,435	91,215	(49,524)	222,126
TOTAL EQUITY AND LIABILITIES	Php266,870	Php91,276	Php14,585	Php372,731

[(1)] *Includes pro-forma adjustments on the acquisition of the Assets and the accounting of the mandatory tender offer, which gives all non-controlling Digitel shareholders the option to exchange their Digitel common shares either for PLDT common shares or cash. The acquisition of the assets and mandatory tender offer are treated as linked transactions, thus, it is assumed that PLDT acquired 100% equity interest of Digitel as at the date of the completion of the transaction, which is October 26, 2011. The mandatory offer requires recognition of financial liability measured by multiplying the number of shares held by the non-controlling Digitel shareholders with the agreed rate of Php1.60 per Digitel share as at acquisition date. In addition, the pro-forma adjustments were calculated using Php2,330, the share price of PLDT common shares at October 26, 2011. The amount allocated to net assets of Digitel is based on provisional accounting wherein it was assumed that the carrying value of Digitel Net Assets approximate their Fair Values as at September 30, 2011, which is the latest period for which financial data is available, and the difference between the total consideration transferred and the carrying value of the net assets at acquisition date refers entirely to goodwill. The value of embedded equity option resulting from the option granted to the non-controlling Digitel shareholders to avail of the tender offer in the form of PLDT common shares instead of cash was assumed to have a value of zero as at September 30, 2011.*

[(2)] *Includes pro-forma adjustments on the issuance of PLDT New Shares at the issue price of Php2,330 per share, equivalent to the market value of share price at October 26, 2011, net of elimination of Digitel Paid-in Capital.*

[(3)] *Relates to transaction costs incurred, net of tax, and the elimination of Digitel equity upon consolidation.*

[(4)] *Relates to the elimination upon consolidation of Bonds Payable and Advance that are part of the Assets acquired by PLDT from JGS Group.*

[(5)] *Relates to accrual of transaction costs incurred to close the transaction.*

For the Nine Months Ended September 30, 2011 (Unaudited)	PLDT	DIGITEL	PRO-FORMA ADJUSTMENT	PRO-FORMA RESULTS
		(in millions)		
REVENUES				
Service revenues	Php103,245	Php13,821	Php–	Php117,066
Non-service revenues	1,781	205	–	1,986
	105,026	14,026	–	119,052
EXPENSES				
Depreciation and amortization	20,176	3,925	–	24,101
Compensation and employee benefits	15,963	6,997	–	22,960
Repairs and maintenance	6,925		–	6,925
Selling and promotions	4,496		–	4,496
Professional and other contracted services	3,644		461[(1)]	4,105
Cost of sales	3,583	1,559	–	5,142
Rent	2,958		–	2,958
Taxes and licenses	1,842		–	1,842
Asset impairment	1,184	254	–	1,438
Other expenses	3,574		–	3,574
	64,345	12,735	461	77,541
	40,681	1,291	(461)	41,511
OTHER INCOME (EXPENSES)	(355)	(1,352)	803[(2)]	(904)
INCOME BEFORE INCOME TAX	40,326	(61)	342	40,607
PROVISION FOR INCOME TAX	9,719	(77)	103[(3)]	9,745
NET INCOME FOR THE PERIOD	30,607	16	239	30,862
ATTRIBUTABLE TO:				
Equity holders of Parent Company	30,618	16	239	30,873
Non-controlling interests	(11)	–	–	(11)
	Php30,607	Php16	Php239	Php30,862
Earnings Per Share For The Year Attributable to Common Equity Holders				
Basic	162.11	0.002	–	142.37
Diluted	162.06	0.002	–	142.37

[(1)] Relates to transaction costs incurred to close the transaction. Under PFRS 3, such expenses are treated as period cost.

[(2)] Relates to the assumed interest income recognized by PLDT on the bonds payable, which is part of the Assets, and is eliminated upon consolidation against the financing costs recognized by Digitel.

[(3)] Relates to the tax effects of the adjustments of the transaction cost and interest income.

PLDT's Creation of Voting Preferred Shares

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments (the "Amendments"). The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the Board of Directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines (a Qualified Owner). The holders of Voting Preferred Stock shall have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock.

The Special Meeting of Stockholders scheduled on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments, or the Special Meeting, had been cancelled by the Board of Directors due to an anticipated lack of quorum. Based on the validated and tabulated proxies reported by PLDT's Transfer Agents, the Corporate Secretary determined that: (1) holders of shares equivalent to 73.27% of the total outstanding common stock had given valid proxies to be represented and vote their shares in the Special Meeting; and (2) the number of shares of preferred stock necessary to bring the total shares represented in person or by proxy and to vote at the Special Meeting to two-thirds of total outstanding capital stock, being the quorum required for the Special Meeting, would most likely not be secured. Under the Corporation Code, holders of preferred shares are also entitled to vote on significant corporate actions, such as the amendment of the Articles of Incorporation, which is the principal item in the Agenda for the Special Meeting.

The Board of Directors plans to call another special meeting of stockholders on such date to be announced in due course.

After the approval of the Amendments by the stockholders and the PSEC, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, may determine the specific terms, features and limitations of the Voting Preferred Stock and, as it deems necessary to protect the interest of PLDT and its stakeholders, authorize the issuance of shares of Voting Preferred Stock to Qualified Owners. It is contemplated that the shares of Voting Preferred Stock will have the following other features: (a) entitled to dividends at such rate to be determined by the Board of Directors, payable before any dividends are paid to the holders of Common Stock; (b) not convertible to Common Stock or to any shares of stock of PLDT of any class; (c) redeemable at the option of PLDT; (d) holders will have no pre-emptive right to subscribe or purchase any shares of stock of any class, or convertible debt, securities or warrants issued, sold or disposed by PLDT; and (e) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to holders of shares of Common Stock.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

PCEV's Transfer of the Remaining Meralco Shares to Beacon

On October 19, 2011, PCEV's Board of Directors approved the transfer of its remaining 68.8 million shares in Meralco into Beacon at a price of Php220 per share equivalent to Php15,136 million. The price of Php220 per share was based on a discount to the 15-day weighted average share price of Meralco, Meralco's share price targets as published by various equity research analysts and comparable market transactions. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011. PCEV no longer holds directly any shares in Meralco while Beacon beneficially owns approximately 45.35% of Meralco's common shares, with Beacon as the single largest shareholder of Meralco.

The Board of PCEV also authorized the subscription of PCEV to 1.199 billion Beacon preferred shares with an issue value of Php15,136 million. The preferred shares carry a 7% dividend rate, subject to cash availability and retained earnings.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 24 –Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at September 30, 2011:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Corporate subscribers	Php8,667	Php1,872	Php1,545	Php604	Php4,646
Retail subscribers	8,484	1,660	765	214	5,845
Foreign administrations	5,335	1,489	1,292	802	1,752
Domestic carriers	1,456	212	117	141	986
Dealers, agents and others	4,264	3,105	191	510	458
Total	Php28,206	Php8,338	Php3,910	Php2,271	Php13,687
Less: Allowance for doubtful accounts	12,411				
Total Receivables - net	**Php**15,795				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the third quarter of 2011 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________

ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title: ______________________________

JUNE CHERYL A. CABAL
First Vice President and Controller
(Principal Accounting Officer)

Date: November 3, 2011

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010 (AUDITED)
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (UNAUDITED)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2011 and December 31, 2010
(in million pesos, except par value per share amounts and number of shares)

	2011	2010
	(Unaudited)	(Audited)
ASSETS		
Noncurrent Assets		
Property, plant and equipment (Notes 3, 5, 9, 12, 20 and 27)	**157,186**	163,184
Investments in associates and joint ventures (Notes 3, 4, 5, 10, 24 and 27)	**24,209**	23,203
Available-for-sale financial assets (Notes 6 and 27)	**150**	147
Investment in debt securities (Notes 11 and 27)	**501**	484
Investment properties (Notes 3, 6, 9, 12 and 27)	**1,560**	1,560
Goodwill and intangible assets (Notes 3, 4, 5, 14, 21 and 27)	**11,387**	11,485
Deferred income tax assets – net (Notes 3, 4, 7 and 27)	**5,332**	6,110
Derivative financial assets (Note 27)	**–**	178
Prepayments – net of current portion (Notes 3, 5, 18, 25 and 27)	**8,821**	8,679
Advances and refundable deposits – net of current portion (Note 27)	**1,128**	1,187
Total Noncurrent Assets	**210,274**	216,217
Current Assets		
Cash and cash equivalents (Notes 15 and 27)	**32,716**	36,678
Short-term investments (Note 27)	**559**	669
Trade and other receivables (Notes 3, 5, 16, 18, 24 and 27)	**15,795**	16,428
Inventories and supplies (Notes 3, 4, 5, 17 and 27)	**2,846**	2,219
Derivative financial assets (Note 27)	**233**	5
Current portion of prepayments (Notes 18 and 27)	**4,352**	5,418
Current portion of advances and refundable deposits (Note 27)	**95**	181
Total Current Assets	**56,596**	61,598
TOTAL ASSETS	**266,870**	277,815
EQUITY AND LIABILITIES		
Equity		
Preferred stock, Php10 par value per share, authorized - 822,500,000 shares; issued and outstanding - 441,990,395 shares as at September 30, 2011 and 441,887,387 shares as at December 31, 2010 (Notes 8, 19 and 27)	**4,420**	4,419
Common stock, Php5 par value per share, authorized - 234,000,000 shares; issued - 189,480,783 shares and outstanding - 186,756,672 shares as at September 30, 2011; and issued - 189,480,549 shares and outstanding - 186,756,438 shares as at December 31, 2010 (Notes 8, 19 and 27)	**947**	947
Treasury stock - 2,724,111 shares as at September 30, 2011 and December 31, 2010 (Notes 8, 19 and 27)	**(6,505)**	(6,505)
Capital in excess of par value	**62,891**	62,890
Retained earnings (Note 19)	**25,375**	36,594
Other comprehensive income (Note 6)	**(1,134)**	(1,276)
Total Equity Attributable to Equity Holders of PLDT	**85,994**	97,069
Non-controlling interests (Note 6)	**441**	316
TOTAL EQUITY	**86,435**	97,385

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*
As at September 30, 2011 and December 31, 2010
(in million pesos, except par value per share amounts and number of shares)

	2011	2010
	(Unaudited)	(Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23 and 27)	**70,178**	75,888
Deferred income tax liabilities – net (Notes 3, 4, 7 and 27)	**785**	1,099
Derivative financial liabilities (Note 27)	**1,759**	3,604
Pension and other employee benefits (Notes 3, 5, 23, 25 and 27)	**2,984**	1,834
Customers' deposits (Note 27)	**2,257**	2,223
Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 14, 21, 23, 27 and 28)	**14,368**	13,567
Total Noncurrent Liabilities	**92,331**	98,215
Current Liabilities		
Accounts payable (Notes 22, 24, 26 and 27)	**22,732**	25,804
Accrued expenses and other current liabilities (Notes 3, 10, 14, 20, 21, 23, 24, 25, 26 and 27)	**37,466**	35,959
Derivative financial liabilities (Note 27)	**857**	–
Provision for assessments (Notes 3, 26 and 27)	**1,555**	1,555
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23 and 27)	**20,538**	13,801
Dividends payable (Notes 19 and 27)	**2,468**	2,086
Income tax payable (Notes 7 and 27)	**2,488**	3,010
Total Current Liabilities	**88,104**	82,215
TOTAL LIABILITIES	**180,435**	180,430
TOTAL EQUITY AND LIABILITIES	**266,870**	277,815

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
For the Periods Ended September 30, 2011 and 2010
(in million pesos, except earnings per common share amounts)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	**2011**	2010
		(Unaudited)		
REVENUES				
Service revenues (Notes 3 and 4)	**103,245**	106,716	**33,605**	34,560
Non-service revenues (Notes 3, 4 and 5)	**1,781**	1,556	**639**	505
	105,026	108,272	**34,244**	35,065
EXPENSES				
Depreciation and amortization (Notes 3, 4 and 9)	**20,176**	19,953	**7,058**	6,899
Compensation and employee benefits (Notes 3, 5 and 25)	**15,963**	16,834	**5,314**	5,587
Repairs and maintenance (Notes 12, 17 and 24)	**6,925**	6,723	**2,249**	2,211
Selling and promotions	**4,496**	3,855	**1,806**	1,188
Professional and other contracted services (Note 24)	**3,644**	3,408	**1,134**	1,106
Cost of sales (Notes 5, 17 and 24)	**3,583**	3,561	**1,177**	1,172
Rent (Notes 3 and 27)	**2,958**	3,386	**935**	1,213
Taxes and licenses (Note 26)	**1,842**	2,015	**662**	712
Communication, training and travel	**1,275**	1,321	**418**	474
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	**1,184**	1,534	**372**	314
Insurance and security services (Note 24)	**957**	909	**321**	356
Amortization of intangible assets (Notes 3, 4 and 14)	**207**	268	**63**	90
Other expenses (Note 24)	**1,135**	1,149	**301**	293
	64,345	64,916	**21,810**	21,615
	40,681	43,356	**12,434**	13,450
OTHER INCOME (EXPENSES)				
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	**1,520**	1,419	**681**	538
Interest income (Notes 4, 5, 11 and 15)	**1,013**	914	**368**	302
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	**626**	(495)	**142**	(1,429)
Foreign exchange gains (losses) – net (Notes 4, 9 and 27)	**106**	1,667	**(320)**	1,726
Financing costs – net (Notes 4, 5, 9, 20 and 27)	**(4,772)**	(5,051)	**(1,594)**	(1,600)
Other income (Notes 4 and 18)	**1,152**	1,222	**521**	668
	(355)	(324)	**(202)**	205
INCOME BEFORE INCOME TAX (Note 4)	**40,326**	43,032	**12,232**	13,655
PROVISION FOR INCOME TAX (Notes 3, 4 and 7)	**9,719**	10,974	**2,921**	3,218
NET INCOME FOR THE PERIOD (Note 4)	**30,607**	32,058	**9,311**	10,437
ATTRIBUTABLE TO:				
Equity holders of PLDT (Notes 4 and 8)	**30,618**	31,988	**9,319**	10,309
Non-controlling interests (Note 4)	**(11)**	70	**(8)**	128
	30,607	32,058	**9,311**	10,437
Earnings Per Share For The Period Attributable to Common Equity Holders of PLDT (Note 8)				
Basic	**162.11**	169.38	**49.28**	54.55
Diluted	**162.06**	169.38	**49.28**	54.55

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Periods Ended September 30, 2011 and 2010
(in million pesos)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	**2011**	2010
	(Unaudited)			
NET INCOME FOR THE PERIOD (Note 4)	**30,607**	32,058	**9,311**	10,437
OTHER COMPREHENSIVE INCOME (LOSS) (Note 6)				
Foreign currency translation differences of subsidiaries	**141**	(773)	**282**	(849)
Net transactions on cash flow hedges:	**7**	–	**7**	–
Net gains on cash flow hedges	**7**	–	**7**	–
Net gains on available-for-sale financial assets:	**3**	19	**3**	12
Gains from changes in fair value recognized during the period	**2**	17	**6**	12
Losses removed from other comprehensive income as a result of divestment	**1**	–	**1**	–
Losses removed from other comprehensive income taken to income	**–**	2	**–**	–
Income tax related to fair value adjustments charged directly to equity	**–**	–	**(4)**	–
Total Other Comprehensive Income (Loss)	**151**	(754)	**292**	(837)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**30,758**	31,304	**9,603**	9,600
ATTRIBUTABLE TO:				
Equity holders of PLDT	**30,760**	31,400	**9,601**	9,636
Non-controlling interests	**(2)**	(96)	**2**	(36)
	30,758	31,304	**9,603**	9,600

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Nine Months Ended September 30, 2011 and 2010
(in million pesos)

(Unaudited)	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Loss	Total Equity Attributable to Equity Holders of PLDT	Non-controlling Interests	Total Equity
Balances as at January 1, 2010	**4,416**	**947**	**(6,405)**	**62,890**	**37,744**	**(1,017)**	**98,575**	**550**	**99,125**
Total comprehensive income for the period:	–	–	–	–	31,988	(588)	31,400	(96)	31,304
Net income for the period (Notes 4 and 8)	–	–	–	–	31,988	–	31,988	70	32,058
Other comprehensive loss (Note 6)	–	–	–	–	–	(588)	(588)	(166)	(754)
Cash dividends (Note 19)	–	–	–	–	(41,287)	–	(41,287)	(50)	(41,337)
Issuance of capital stock – net of conversion (Note 19)	1	–	–	1	–	–	2	–	2
Acquisition of treasury stocks (Notes 2, 8, 19 and 27)	–	–	–	–	–	–	–	(6)	(6)
Others	–	–	–	–	–	–	–	7	7
Balances as at September 30, 2010	**4,417**	**947**	**(6,405)**	**62,891**	**28,445**	**(1,605)**	**88,690**	**405**	**89,095**
Balances as at January 1, 2011	**4,419**	**947**	**(6,505)**	**62,890**	**36,594**	**(1,276)**	**97,069**	**316**	**97,385**
Total comprehensive income for the period:	–	–	–	–	30,618	142	30,760	(2)	30,758
Net income for the period (Notes 4 and 8)	–	–	–	–	30,618	–	30,618	(11)	30,607
Other comprehensive income (Note 6)	–	–	–	–	–	142	142	9	151
Cash dividends (Note 19)	–	–	–	–	(41,837)	–	(41,837)	–	(41,837)
Issuance of capital stock – net of conversion (Note 19)	1	–	–	1	–	–	2	–	2
Others	–	–	–	–	–	–	–	127	127
Balances as at September 30, 2011	**4,420**	**947**	**(6,505)**	**62,891**	**25,375**	**(1,134)**	**85,994**	**441**	**86,435**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2011 and 2010
(in million pesos)

	2011	2010
		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax (Note 4)	**40,326**	43,032
Adjustments for:		
Depreciation and amortization (Notes 3, 4 and 9)	**20,176**	19,953
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)	**3,889**	4,130
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	**1,184**	1,534
Incentive plans (Notes 3, 5 and 25)	**1,132**	1,061
Accretion on financial liabilities – net (Notes 5, 20 and 27)	**807**	885
Amortization of intangible assets (Notes 3 and 14)	**207**	268
Losses (gains) on disposal of property, plant and equipment (Note 9)	**12**	(552)
Pension benefit costs (income) (Notes 3, 5 and 25)	**(38)**	197
Foreign exchange gains – net (Notes 4, 9 and 27)	**(106)**	(1,667)
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	**(626)**	495
Interest income (Notes 4, 5 and 15)	**(1,013)**	(914)
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	**(1,520)**	(1,419)
Others	**(642)**	(144)
Operating income before changes in assets and liabilities	**63,788**	66,859
Decrease (increase) in:		
Trade and other receivables	**(332)**	(2,322)
Inventories and supplies	**(147)**	96
Prepayments	**198**	(350)
Advances and refundable deposits	**79**	(27)
Increase (decrease) in:		
Accounts payable	**(3,159)**	195
Accrued expenses and other current liabilities	**3,482**	3,031
Pension and other employee benefits	**(162)**	(4,579)
Customers' deposits	**33**	55
Other noncurrent liabilities	**27**	52
Net cash generated from operations	**63,807**	63,010
Income taxes paid	**(8,820)**	(8,984)
Net cash provided by operating activities	**54,987**	54,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,032**	929
Dividends received (Note 10)	**486**	445
Proceeds from:		
Maturity of short-term investments	**302**	3,565
Disposal of property, plant and equipment (Note 9)	**265**	123
Disposal of investment – net of cash of deconsolidated subsidiaries	**173**	–
Notes receivable	**85**	–
Cash of newly consolidated subsidiary – net of payment for purchase of subsidiary	**72**	–
Disposal of investment properties (Note 12)	**–**	36
Disposal of available-for-sale financial assets	**–**	10
Payments for:		
Acquisition of intangibles (Note 14)	**(9)**	(11)
Purchase of short-term investments	**(244)**	(3,120)
Contingent consideration arising from business combinations (Note 23)	**(1,910)**	–
Purchase of subsidiaries – net of cash acquired	**–**	(10)
Purchase of investment in debt securities	**–**	(403)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27)	**(480)**	(538)
Additions to property, plant and equipment (Notes 4 and 9)	**(14,068)**	(16,385)
Increase in advances and refundable deposits	**(64)**	(143)
Net cash used in investing activities	**(14,360)**	(15,502)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued*)
For the Nine Months Ended September 30, 2011 and 2010
(in million pesos)

	2011	2010
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of long-term debt (Note 20)	**11,300**	7,246
Availment of long-term financing for capital expenditures	**3,999**	2,490
Proceeds from notes payable (Note 20)	**1,269**	–
Proceeds from issuance of capital stock	**2**	2
Payments of obligations under finance leases	**(33)**	(29)
Payments of debt issuance costs (Note 20)	**(39)**	(112)
Settlements of derivative financial instruments (Note 27)	**(475)**	(969)
Settlement of long-term financing for capital expenditures	**(3,276)**	(2,495)
Interest paid – net of capitalized portion (Notes 5, 20 and 27)	**(3,941)**	(4,124)
Payments of long-term debt (Note 20)	**(11,764)**	(8,458)
Cash dividends paid (Note 19)	**(41,484)**	(40,947)
Payments for acquisition of treasury shares (Notes 8, 19 and 27)	**–**	(6)
Payments of notes payable (Note 20)	**(191)**	(2,274)
Net cash used in financing activities	**(44,633)**	(49,676)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**44**	(265)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,962)**	(11,417)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**36,678**	38,319
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**32,716**	26,902

See accompanying 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 September 30, 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 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 September 30, 2011.

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 depositary, 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 depositary 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 56 million ADSs outstanding as at September 30, 2011.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments, wireless, fixed line and 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.

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 include adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results of operations that may be expected for the full year.

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 unaudited consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at September 30, 2011:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership	
			Direct	Indirect
Wireless				
Smart:	Philippines	Cellular mobile services	100.0	–
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution services	–	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	–	100.0
I-Contacts Corporation, or I-Contacts	Philippines	Call center services	–	100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services	–	100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards	–	100.0
Smarthub, Inc., or SHI	Philippines	Software development and sale of maintenance and support services	–	100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company	–	100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing	–	100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms	–	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	–	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	–	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	–	100.0
Connectivity Unlimited Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	–	99.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company	–	100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	–	85.0
Telesat, Inc., or Telesat*	Philippines	Satellite communications services	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite*	Philippines	Satellite communications services	67.0	–
Pilipinas Global Network Limited	British Virgin Islands	International distributor of Filipino channels and content	60.0	–
Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0	–
Smart-NTT Multimedia, Inc., or SNMI*	Philippines	Data and network services	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	–
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.8	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services, or VAS	75.0	–

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Indirect
Information and Communications Technology, or ICT				
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	100.0	–
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions	–	100.0
SPi CRM Inc., or SPi CRM	Philippines	Customer relationship management	–	100.0
Infocom Technologies, Inc., or Infocom	Philippines	Customer relationship management	–	99.6
BayanTrade, Inc., or BayanTrade, and Subsidiaries, or BayanTrade Group	Philippines	Internet-based purchasing, IT consulting and professional services	–	93.5
netGames, Inc., or netGames	Philippines	Customer relationship management	–	57.5
ePDS, Inc., or ePDS	Philippines	Bills printing and other related VAS	–	67.0

* *Ceased commercial operations*

Basis of Consolidation

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 significant intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full in accordance with the accounting policy on consolidation.

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 or retained earnings, as appropriate.

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. The number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3, 2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. 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 non-controlling 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 September 30, 2011, approximately 3.6 million shares at a cost of Php30 million have been repurchased under the third buyback program.

As at September 30, 2011 and December 31, 2010, cumulative shares repurchased under the share buyback programs totaled approximately 86.6 million at an aggregate cost of Php621 million, which reduced the amount of non-controlling interest by the same amount.

ePLDT's Sale of Investments in Digital Paradise and Level Up!

As part of ePLDT's business realignment and continuing efforts to dispose its non-core businesses, ePLDT sold its entire 75% interest in Digital Paradise on April 1, 2011, which was followed by the sale of its 57.5% interest in Level Up! on July 11, 2011.

Additional Investment of ePLDT in ePDS

On August 24, 2011, ePLDT acquired an additional 17% of ePDS equity interest from Quantium Solutions International Pte. Ltd., or Quantium (formerly G3 Worldwide ASPAC), a private limited compay, wherein ePLDT's equity interest in ePDS increased from 50% to 67%. See *Note 10 – Investment in Associates and Joint Ventures* and *Note 13 – Business Combinations*.

Sale of Medical Transcription Business of SPi and SPi America Holdings

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

Statement of Compliance

Our consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policies and Disclosures

Our accounting policies are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to existing PFRSs and new interpretation as at January 1, 2011:

- *Revised Philippine Accounting Standard, or PAS, 24, Related Party Disclosures;*
- *Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues;*
- *Amendment to Philippine Interpretation International Financial Reporting Interpretations Committee, or IFRIC, 14, Prepayments of a Minimum Funding Requirement;*
- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments;* and
- *Improvements to PFRSs (2010).*

The changes introduced by such amendments, improvements and new interpretation are as follows:

Revised PAS 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 the consolidated financial statements. Also, the revised standard provides a partial exemption from the disclosure requirements for government-related entities. The adoption of this revised standard did not have any impact on our financial position or performance.

Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues. The definition of a financial liability in the standard has been amended to classify right issues (and certain options or warrants) as equity instruments if: (a) the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments; and (b) the instruments are used to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of this amendment did not have any impact on our financial position or performance.

Amendment to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement. The interpretation has been amended to permit an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation. The adoption of this amendment did not have any impact on our financial position or performance.

Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. The interpretation did not have any impact on our financial position or performance.

Improvements to PFRSs

The Financial Reporting Standards Council, or FRSC, approved during its meeting in May 2010 the adoption of Improvements to PFRSs, which were issued by the International Accounting Standards Board in May 2010. Improvements to PFRS is an omnibus of amendments to standards that deal primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of the following amendments resulted in changes to our accounting policies but did not have any impact on our financial position or performance.

- ***PFRS 3, Business Combinations.*** The improvements include: (a) clarification that the amendments to *PFRS 7, Financial Instruments: Disclosures, PAS 32, Financial Instruments: Presentation,* and *PAS 39, Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of *PFRS 3* (as revised in 2008); (b) guidance that the choice of measuring 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 PFRS; and (c) clarification that the application guidance in *PFRS 3* applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.

- ***PFRS 7, Financial Instruments.*** The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- ***PAS 1, Presentation of Financial Statements.*** The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- ***PAS 27, Consolidated and Separate Financial Statements.*** The improvement clarifies that the consequential amendments from *PAS 27* made to *PAS 21, The Effect of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates,* and *PAS 31, Interests in Joint Ventures,* apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when *PAS 27* is applied earlier.

- ***PAS 34, Interim Financial Reporting.*** The amendment provides guidance on how to apply disclosure principles in *PAS 34* and add disclosure requirements around: (a) the circumstances likely to affect fair values of financial instruments and their classification; (b) transfers of financial instruments between different levels of the fair value hierarchy; (c) changes in classification of financial assets; and (d) changes in contingent liabilities and assets.

- ***Philippine Interpretation IFRIC 13, Customer Loyalty Programmes.*** The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes.

Significant Accounting Policies

The following are the significant accounting policies applied by us in preparing our consolidated financial statements:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the components of the non-controlling interest in the acquiree that are present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at acquisition date fair values unless other measurement basis is required. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with *PAS 39* either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of *PAS 39,* it is measured in accordance with the appropriate PFRS.

Goodwill is initially measured at cost being the excess of the consideration transferred 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 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.

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.

Investments in Joint Ventures

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with those of PLDT Group.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between PLDT and our jointly controlled entity. The joint venture is carried at equity method until the date on which we cease to have joint control over the jointly controlled entity.

Upon loss of joint control and provided that the former jointly controlled entity does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control, and the fair value of the remaining investment and proceeds from disposal, is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in the PLDT Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SCH, SGP, 3rd Brand, SMHC, SMI, TSI, FECL Group, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka and BayanTrade) is the Philippine peso.

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. 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, FECL Group, 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 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.

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, 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 FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as at FVPL if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial assets. Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Interest income" and "Other income", respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain 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 after initial measurement. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income reserve account is recognized in our consolidated income statement. Interest earned on holding available-for-sale debt securities are included under "Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right of the payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months of the end of the reporting period.

Financial Liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at FVPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value 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 FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at FVPL. Financial liabilities are classified as at held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain 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 or dealer price quotations 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 appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 27 – Financial Assets and Liabilities*.

Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are 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 defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 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.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized with equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in the profit or loss.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined using applicable valuation techniques. See *Note 27 – Financial Assets and Liabilities*.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is neither attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in our statement of comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement.

Amounts taken to comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in our consolidated income statement as incurred. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective assets if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life, and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment, capitalizable borrowing costs, and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for commercial service.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation are credited or charged to the current operations.

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 costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period 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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the year in which the expenditures are incurred.

Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost incurred in bringing each items of inventories and supplies to its present location are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business, less the estimated cost to sell or determining the prevailing replacement costs.

Impairment of Non-Financial Assets

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.

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 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 as multiple element arrangements and recognized when earned.

Our wireless segment operates two loyalty points programmes, one for *Smart Money* cardholders and another for subscribers of *Smart Gold, Smart Buddy* and *SmartBro*. The loyalty programme for *Smart Money* allows cardholders, upon enrollment, to accumulate points when they use their card for purchases, *Smart Load* payments, and reloads for Smart's prepaid cards, *SmartBro* prepaid Airtime and *Smart Money Cash Load*. The points for the programme can then be redeemed for airtime or load wallet. On the other hand, the loyalty programme for Smart's cellular and broadband subscribers allows postpaid subscribers to accumulate points for billed transactions and prepaid subscribers for reloads or top-ups and VAS, and international direct dialing usage and tenure in the network for both postpaid and prepaid subscribers. The points for the loyalty programme for the subscribers can then be redeemed, upon registration, for bill rebates, discounts on cellular phonekit purchases, on-network short messaging services or internet surf time. Redemption for both programmes are subject to a minimum number of points being required. Consideration received is allocated between the services sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued are deferred and recognized as revenue when the points are redeemed.

Non-service Revenues

Handset and equipment sales

Sale of cellular handsets and communication equipment are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize provision when we have present obligation, legal or constructive, as a result of 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.

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, is determined using the projected unit credit method. Employee benefit costs include current service cost, interest cost, actuarial gains and losses and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

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.

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.

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post quarter-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the unaudited consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the unaudited consolidated financial statements when material.

Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprise items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRSs.

Non-controlling interests represent the equity interests in Metro Kidapawan Telephone Corporation, or MKTC, Datelco Global Communications, Inc., or DGCI, PCEV, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, netGames, Chikka, BayanTrade, Infocom and ePDS not held directly by PLDT or indirectly through one of our subsidiaries. MKTC and DGCI are subsidiaries of Philcom.

New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to September 30, 2011

We will adopt the following revised standards and interpretations enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these revised standards and amendments to PFRS to have a significant impact on our consolidated financial statements.

Effective 2012

Amendments to PFRS 7, Disclosures – Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are applied prospectively and are applicable for annual periods beginning on or after July 1, 2011.

Amendment to PAS 12, Income Taxes – Deferred Income Tax: Recovery of Underlying Assets. The amendment 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

PFRS 9, Financial Instruments: Classification and Measurement. *PFRS* 9, as issued in 2010, reflects the first phase of the work on the replacement of *PAS 39* and applies to classification and measurement of financial assets and financial liabilities as defined in *PAS 39*. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in 2011. The Group has not yet decided whether or not to early adopt *PFRS* 9 for its 2011 financial reporting, and therefore, the interim financial statements do not reflect the impact of the said standard. The adoption of the first phase of *PFRS 9* will have an effect on the classification and measurement of our financial assets. We will quantify the effect on our consolidated financial statements in conjunction with the other phases, when issued, to present a comprehensive picture.

PFRS 10, Consolidated Financial Statements. *PFRS 10* defines the principle of control and introduces a new approach to determining which investees should be consolidated in the consolidated financial statement. It further provides a single model to be applied in the control analysis for all investees and sets out the accounting requirements for the preparation of consolidated financial statements. *PFRS 10* and *PAS 27* (as amended in 2011) together will supersede *PAS* 27 (as amended in 2008) and *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013, with certain exceptions. Earlier adoption is permitted provided that *PFRS 11, Joint Arrangements,* and *PFRS 12*, *Disclosure of Interests in Other Entities,* are applied simultaneously and with additional disclosure of the fact.

PFRS 11, Joint Arrangements. *PFRS 11* provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and elimination of proportionate consolidation method. *PFRS 11* will supersede *PAS 31*, *Interests in Joint Ventures,* and *SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10* and *PFRS 12* are applied simultaneously and with additional disclosure of the fact.

PFRS 12, Disclosure of Interests in Other Entities. *PFRS 12* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities that enables the users of the financial statements to evaluate: (a) the nature of, and risks associated with, the interests in other entities; and (b) the effects of those interests on the financial position, financial performance and cash flows. The standard also evaluate the: (i) nature and extent of significant restrictions on its ability to access or use assets and settle liabilities of the group; (ii) nature of, and changes in, the risks associated with its interests in consolidated structured entities; (iii) nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests; (iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests; (v) the consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and (vi) the consequences of losing control of a subsidiary during the reporting period.

PFRS 12 is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10* and *PFRS 11* are applied simultaneously and with additional disclosure of the fact.

PFRS 13, Fair Value Measurement. *PFRS 13* sets out the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date with an emphasis that fair value is a market-based measurement, not an entity-specific measurement. *PFRS 13* explains that a fair value measurement requires an entity to determine the following: (a) the particular asset or liability being measured; (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs that a market participant would use when pricing the asset or liability. *PFRS 13* is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

Revised PAS 19, Employee Benefits. The revised standard removes the deferral mechanism for pension plans and prescribes that all changes in the value of defined benefit plans will be recognized as they occur. Those movements are recorded in profit or loss and other comprehensive income as follows: (a) service cost and a net interest income or expense will be recognized in profit or loss. The net interest income or expense is the product of the net balance sheet liability or asset and the discount rate used to measure the obligation — both as at the start of the year. This removes the current concept of expected return on plan assets — where income is credited with the expected long-term yield on the assets in the fund; and (b) "Remeasurements" will be recorded in other comprehensive income. These are all other movements in the balance sheet amount (essentially these are currently described as actuarial gains and losses and any effects of the restriction of a surplus to its recoverable amount). Other changes as a result of the revised standard include: (i) recognition of past service cost as expense when the plan amendments occur regardless of whether or not they are vested; and (ii) change in the basis for distinction between short-term and other long-term employee benefits to expected timing of settlement rather than employee entitlement. Changes in the carrying amount of liabilities for other long-tem employment benefits will continue to be recognized in profit or loss. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognized only when the offer becomes legally binding and cannot be withdrawn. In the context of a wider restructuring, termination benefits are recognized at the same time as the other restructuring costs. These amendments are effective for annual periods beginning January 1, 2013. Earlier application is permitted.

Revised PAS 27, Separate Financial Statements. The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11 and PFRS 12*. The revised standard provides the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and requires an entity preparing separate financial statements to account for those investments at cost or in accordance with *PFRS* 9. The standard is issued concurrently with *PFRS 10* and together, the two PFRSs will supersede *PAS 27* (as amended in 2008) and *SIC 12*. Revised *PAS 27* is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that *PFRS 10, PRFS 11, PFRS 12* and *PAS 28* (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

Revised PAS 28, Investments in Associates and Joint Ventures. The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11* and *PFRS 12*. The revised standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Equity method is defined in the revised standard as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee. The revised standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard supersedes *PAS 28* (as revised in 2003). Revised *PAS 28* is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10, PFRS 11, PFRS 12* and *PAS 27* (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

Amendments to PAS 1, Presentation of Financial Statements. The amendments improve the consistency and clarity of presentation of items of other comprehensive income. The amendments require entities to present line items of amounts of other comprehensive income in the period to be classified by nature and be grouped into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and (b) will be reclassified subsequently to profit or loss when specific conditions are met. Other comprehensive income items that can be reclassified into profit or loss include: (i) foreign exchange gains and losses arising from translations of financial statements of foreign operations; and (ii) effective portion of gains and losses on hedging instruments in a cash flow hedge. While those items that cannot be reclassified into profit or loss include: (i) changes in the revaluation surplus; (ii) actuarial gains and losses on defined benefit plans; (iii) gains and losses from investment in equity instruments measured at fair value through other comprehensive income; and (iv) for those liabilities designated at FVPL, changes in fair value attributable to changes in the liability's credit risk. These amendments are effective for annual periods beginning July 1, 2012. Earlier application is permitted.

3. Management's Use of Accounting Judgments, Estimates and Assumptions

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

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, FECL Group, 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 *PAS 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 Php2,958 million and Php3,386 million for the nine months ended September 30, 2011 and 2010, respectively. Total finance lease obligations amounted to Php13 million and Php43 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 20 – Interest-bearing Financial Liabilities* and *Note 27 – Financial Assets and Liabilities.*

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

Under *PAS 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 of PCEV 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 beneficial 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. 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 20% through PCEV's investment in Beacon as at September 30, 2011. See *Note 10 – Investments in Associates and Joint Ventures*. PCEV's effective beneficial ownership in Meralco is 25.7% as at September 30, 2011. On October 19, 2011, PCEV's Board of Directors approved the transfer to Beacon of PCEV's remaining investment in 68.8 million of Meralco common shares for a total cash consideration of Php15,136 million.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of PLDT. Such changes are reflected in the assumptions when they occur.

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the 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 PFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) amounted to Php1,184 million and Php1,534 million for the nine months ended September 30, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 9 – Property, Plant and Equipment.*

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 Php20,176 million and Php19,953 million for the nine months ended September 30, 2011 and 2010, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php157,186 million and Php163,184 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 4 – Operating Segment Information* and *Note 9 – Property, Plant and Equipment*.

Determining the fair value of investment properties

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

There were no gains from fair value adjustments charged to profit or loss for each of the nine months ended September 30, 2011 and 2010. Total carrying values of our investment properties amounted to Php1,560 million as at September 30, 2011 and December 31, 2010. See *Note 12 – Investment Properties*.

Goodwill and intangible assets

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

Intangible assets acquired from business combination with finite lives are amortized over the 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 Php207 million and Php268 million for the nine months ended September 30, 2011 and 2010, respectively. Total carrying values of goodwill and intangible assets amounted to Php11,387 million and Php11,485 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 14 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets and liabilities

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD, 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 Php1,590 million and Php1,477 million as at September 30, 2011 and December 31, 2010, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php3,086 million and Php2,803 million as at September 30, 2011 and December 31, 2010, respectively. Total consolidated provision for deferred income tax amounted to Php30 million and Php1,621 million for the nine months ended September 30, 2011 and 2010, respectively. Total consolidated net deferred income tax assets amounted to Php5,332 million and Php6,110 million as at September 30, 2011 and December 31, 2010, respectively, while total consolidated net deferred income tax liabilities amounted to Php785 million and Php1,099 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for doubtful accounts

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

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

Total asset impairment provision for trade and other receivables recognized in our consolidated income statements amounted to Php1,134 million and Php1,256 million for the nine months ended September 30, 2011 and 2010, respectively. Trade and other receivables, net of asset impairment, amounted to Php15,795 million and Php16,428 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses, Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

Estimating net realizable value of inventories and supplies

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

Total write-down of inventories and supplies amounted to Php43 million and Php42 million for the nine months ended September 30, 2011 and 2010, respectively. The carrying values of inventories and supplies amounted to Php2,846 million and Php2,219 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 17 – Inventories and Supplies*.

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 – Employee Benefits*. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed at year-end.

Total consolidated pension benefit costs amounted to income of Php38 million and expense of Php197 million for the nine months ended September 30, 2011 and 2010, respectively. Unrecognized net actuarial gains amounted to Php470 million and Php479 million as at September 30, 2011 and December 31, 2010, respectively. The prepaid benefit costs amounted to Php5,574 million and Php5,333 million as at September 30, 2011 and December 31, 2010, respectively. The accrued benefit costs amounted to Php427 million and Php415 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 5 – Income and Expenses, Note 18 – Prepayments* and *Note 25 – 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. LTIP cost recognized for the nine months ended September 30, 2011 and 2010 amounted to Php1,132 million and Php1,061 million, respectively. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php2,524 million and Php1,392 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 5 – Income and Expenses* and *Note 25 – 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 Php1,440 million and Php1,344 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims 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 26 – Provisions and Contingencies*.

Revenue recognition

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

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

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

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and 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 Php50,838 million and Php164,234 million, respectively, as at September 30, 2011, while the total fair values of financial assets and liabilities amounted to Php55,538 million and Php167,396 million, respectively, as at December 31, 2010. See *Note 27 – Financial Assets and Liabilities*.

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 and CURE; SBI, and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries 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; internet and online gaming services provided by Infocom (on July 1, 2011, ePLDT transferred the internet business of Infocom to PLDT), Digital Paradise (on April 1, 2011, ePLDT sold its entire 75% stake in Digital Paradise), netGames and Level Up! (on July 11, 2011, ePLDT sold its 57.5% interest in Level Up!); and bills printing and other VAS related services provided by ePDS (on August 24, 2011, ePLDT increased its equity interest in ePDS from 50% to 67%), as discussed in *Note 2 – Summary of Significant Accounting Policies*, *Note 10 – Investments in Associates and Joint Ventures* and *Note 13 – Business Combinations*.

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 November 3, 2011 and therefore, as at September 30, 2011, the chief operating decision maker continues to view our business activities using the three business units: Wireless, Fixed Line and ICT.

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 period; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the period is measured consistent with net income in the consolidated financial statements.

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses).

EBITDA margin is measured as EBITDA divided by service revenues.

Core income for the period is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

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.

Core earnings per common share, or EPS, is measured as core income divided by the weighted average number of common shares for the period. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statement of financial position which is in accordance with PFRS.

The segment revenues, net income for the period, assets, liabilities, and other segment information of our reportable operating segments for the nine months ended September 30, 2011 and 2010 and as at September 30, 2011 and December 31, 2010 are as follows:

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
September 30, 2011 (Unaudited)					
Revenues					
External customers:	67,598	30,102	7,326	–	105,026
Service revenues (Note 3)	66,590	29,658	6,997	–	103,245
Non-service revenues (Notes 3 and 5)	1,008	444	329	–	1,781
Inter-segment transactions:	682	5,585	1,194	(7,461)	–
Service revenues (Note 3)	682	5,585	1,171	(7,438)	–
Non-service revenues (Notes 3 and 5)	–	–	23	(23)	–
Total revenues	68,280	35,687	8,520	(7,461)	105,026
Results					
Depreciation and amortization (Notes 3 and 9)	10,542	9,084	550	–	20,176
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	430	726	28	–	1,184
Equity share in net earnings of associates and joint ventures (Note 10)	1,370	–	150	–	1,520
Interest income (Note 5)	584	404	32	(7)	1,013
Financing costs – net (Notes 5, 9, 20 and 27)	2,044	2,700	35	(7)	4,772
Provision for income tax (Notes 3 and 7)	7,591	2,028	100	–	9,719
Net income for the period / Segment profit for the period	24,036	5,310	1,261	–	30,607
EBITDA for the period	41,940	17,395	1,540	196	61,071
EBITDA margin for the period	62%	49%	19%	–	59%
Core income for the period	24,926	4,649	1,027	–	30,602
Assets and liabilities					
Operating assets	100,218	190,280	14,563	(67,732)	237,329
Investments in associates and joint ventures (Notes 3, 5, 10 and 27)	23,215	–	994	–	24,209
Deferred income tax assets – net (Notes 3, 7 and 27)	48	4,930	354	–	5,332
Consolidated total assets	123,481	195,210	15,911	(67,732)	266,870
Operating liabilities	77,917	108,518	3,697	(10,482)	179,650
Deferred income tax liabilities – net (Notes 3, 7 and 27)	353	21	130	281	785
Consolidated total liabilities	78,270	108,539	3,827	(10,201)	180,435
Other segment information					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	5,979	8,146	423	–	14,548
September 30, 2010 (Unaudited)					
Revenues					
External customers:	70,946	30,094	7,232	–	108,272
Service revenues (Note 3)	69,876	29,828	7,012	–	106,716
Non-service revenues (Notes 3 and 5)	1,070	266	220	–	1,556
Inter-segment transactions:	569	6,949	1,029	(8,547)	–
Service revenues (Note 3)	569	6,949	892	(8,410)	–
Non-service revenues (Notes 3 and 5)	–	–	137	(137)	–
Total revenues	71,515	37,043	8,261	(8,547)	108,272
Results					
Depreciation and amortization (Notes 3 and 9)	10,127	9,267	559	–	19,953
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	486	982	66	–	1,534
Equity share in net earnings of associates and joint ventures (Note 10)	1,285	–	134	–	1,419
Interest income (Note 5)	520	382	26	(14)	914
Financing costs – net (Notes 5, 9, 20 and 27)	1,992	2,941	132	(14)	5,051
Provision for (benefit from) income tax (Notes 3 and 7)	8,983	2,011	(20)	–	10,974
Net income for the period / Segment profit for the period	26,597	5,071	390	–	32,058
EBITDA for the period	44,323	18,189	1,135	166	63,813
EBITDA margin for the period	63%	49%	14%	–	60%
Core income for the period	26,242	4,686	495	–	31,423

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
December 31, 2010 (Audited)					
Assets and liabilities					
Operating assets	111,852	197,318	15,095	(75,763)	248,502
Investments in associates and joint ventures (Notes 3, 5, 10 and 27)	22,275	–	928	–	23,203
Deferred income tax assets – net (Notes 3, 7 and 27)	41	5,908	161	–	6,110
Consolidated total assets	134,168	203,226	16,184	(75,763)	277,815
Operating liabilities	96,895	104,944	4,435	(26,943)	179,331
Deferred income tax liabilities – net (Notes 3, 7 and 27)	596	22	178	303	1,099
Consolidated total liabilities	97,491	104,966	4,613	(26,640)	180,430
September 30, 2010 (Unaudited)					
Other segment information					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	9,137	7,278	508	–	16,923

Our consolidated basic core EPS amounted to Php162.02 and Php166.36 for the nine months ended September 30, 2011 and 2010, respectively. Our consolidated diluted core EPS amounted to Php161.98 and Php166.36 for the nine months ended September 30, 2011 and 2010, respectively.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Consolidated EBITDA	**61,071**	63,813
Amortization of intangible assets (Notes 3 and 14)	**(207)**	(268)
Depreciation and amortization (Notes 3 and 9)	**(20,176)**	(19,953)
Asset impairment on non-financial assets (Notes 3, 5 and 9)	**(7)**	(236)
	40,681	43,356
Equity share in net earnings of associates and joint ventures (Note 10)	**1,520**	1,419
Interest income (Notes 5 and 15)	**1,013**	914
Gains (losses) on derivative financial instruments – net (Note 27)	**626**	(495)
Foreign exchange gains – net (Notes 9 and 27)	**106**	1,667
Financing costs – net (Notes 5, 9, 20 and 27)	**(4,772)**	(5,051)
Other income (Note 18)	**1,152**	1,222
Consolidated income before income tax	**40,326**	43,032
Provision for income tax (Notes 3 and 7)	**(9,719)**	(10,974)
Consolidated net income for the period	**30,607**	32,058

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Consolidated core income for the period	**30,602**	31,423
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Note 27)	**894**	(137)
Foreign exchange gains – net (Notes 9 and 27)	**100**	1,678
Core income adjustment on equity share in net earnings of associates and joint ventures	**(453)**	(282)
Others	**(364)**	(232)
Net tax effect of aforementioned adjustments	**(161)**	(462)
Net income for the period attributable to equity holders of PLDT (Notes 6 and 8)	**30,618**	31,988
Net income (loss) for the period attributable to non-controlling interests	**(11)**	70
Consolidated net income for the period	**30,607**	32,058

The following table presents our revenues from external customers by category of products and services for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Wireless services		
Service revenues:		
Cellular	**61,223**	64,250
Broadband	**4,839**	4,781
Satellite and others	**528**	845
	66,590	69,876
Non-service revenues:		
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	**1,008**	1,070
Total wireless revenues	**67,598**	70,946
Fixed line services		
Services revenues:		
Local exchange	**11,103**	11,472
International long distance	**3,579**	3,982
National long distance	**2,984**	3,369
Data and other network	**11,843**	10,800
Miscellaneous	**149**	205
	29,658	29,828
Non-service revenues:		
Sale of computers	**444**	266
Total fixed line revenues	**30,102**	30,094
ICT services		
Service revenues:		
Knowledge processing solutions	**4,179**	3,876
Customer relationship management	**1,788**	1,757
Internet and online gaming	**361**	757
Data center and others	**669**	622
	6,997	7,012
Non-service revenues:		
Point-product-sales	**329**	220
Total ICT revenues	**7,326**	7,232
Total products and services from external customers	**105,026**	108,272

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 nine months ended September 30, 2011 and 2010, 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 nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	**1,452**	1,336
Point-product-sales	**329**	220
(Note 4)	**1,781**	1,556

Compensation and Employee Benefits

Compensation and employee benefits for the nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	**14,503**	15,374
Incentive plans (Notes 3 and 25)	**1,132**	1,061
Pension benefit costs (Notes 3 and 25)	**203**	197
Manpower rightsizing program, or MRP	**125**	202
	15,963	16,834

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 Php125 million and Php202 million for the nine months ended September 30, 2011 and 2010, 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 nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	**3,193**	3,137
Cost of point-product-sales	**307**	330
Cost of satellite air time and terminal units (Note 24)	**83**	94
	3,583	3,561

Asset Impairment

Asset impairment for the nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Notes 3 and 16)	**1,134**	1,256
Inventories and supplies (Notes 3 and 17)	**43**	42
Property, plant and equipment (Notes 3 and 9)	**4**	104
Investments in associates and joint ventures (Notes 3 and 10)	**–**	78
Prepayments and others	**3**	54
	1,184	1,534

Interest Income

Interest income for the nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Interest income on other loans and receivables	**989**	859
Interest income on HTM investments	**23**	21
Interest income on FVPL	**1**	34
(Note 4)	**1,013**	914

Financing Costs – net

Financing costs – net for the nine months ended September 30, 2011 and 2010 consists of the following:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Interest on loans and other related items (Notes 4, 20 and 27)	**4,369**	4,668
Accretion on financial liabilities – net (Notes 20, 21 and 27)	**807**	885
Financing charges	**76**	36
Capitalized interest (Notes 4 and 9)	**(480)**	(538)
(Note 4)	**4,772**	5,051

Interest expense for short-term borrowings amounted to Php9 million and Php11 million for the nine months ended September 30, 2011 and 2010, respectively.

6. Components of Other Comprehensive Income

The movements of other comprehensive income under equity of our consolidated statements of financial position for the nine months ended September 30, 2011 and 2010 are as follows:

(Unaudited)	Foreign currency translation differences of subsidiaries	Net gains on available-for-sale financial assets – net of tax	Net transactions on cash flow hedges	Revaluation increment on investment properties – net of tax	Total other comprehensive loss attributable to equity holders of PLDT	Share of non-controlling interests	Total other comprehensive loss – net of tax
				(in million pesos)			
Balances as at January 1, 2010	(1,043)	26	–	–	(1,017)	165	(852)
Other comprehensive income (loss) for the period	(607)	19	–	–	(588)	(166)	(754)
Balances as at September 30, 2010	**(1,650)**	**45**	**–**	**–**	**(1,605)**	**(1)**	**(1,606)**
Balances as at January 1, 2011	(1,639)	49	–	314	(1,276)	(1)	(1,277)
Other comprehensive income for the period	132	3	7	–	142	9	151
Balances as at September 30, 2011	**(1,507)**	**52**	**7**	**314**	**(1,134)**	**8**	**(1,126)**

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 September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets (Notes 3 and 4)	**5,332**	6,110
Net deferred income tax liabilities (Notes 3 and 4)	**(785)**	(1,099)

The components of our consolidated net deferred income tax assets (liabilities) as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets:		
Accumulated provision for doubtful accounts	**2,549**	2,488
Unamortized past service pension costs	**2,231**	2,548
Unearned revenues	**2,228**	2,586
Unrealized foreign exchange losses	**901**	924
Derivative financial instruments	**717**	1,028
Provision for impaired assets	**386**	379
NOLCO	**331**	119
Accumulated write-down of inventories to net realizable values	**145**	289
Asset impairment	**27**	27
MCIT	**19**	446
Capitalized taxes and duties – net of amortization	**(140)**	(186)
Capitalized foreign exchange differential – net of depreciation	**(265)**	(363)
Pension and other employee benefits	**(1,262)**	(1,361)
Undepreciated capitalized interest charges	**(2,471)**	(2,685)
Others	**(64)**	(129)
	5,332	6,110
Net deferred income tax liabilities:		
Unearned revenues	**673**	668
Pension and other employee benefits	**67**	35
Undepreciated capitalized interest charges	**(267)**	(304)
Fair value adjustment on fixed assets from business combinations	**(281)**	(303)
Intangible assets and fair value adjustments on assets acquired – net of amortization	**(357)**	(423)
Unrealized foreign exchange gains	**(674)**	(707)
Others	**54**	(65)
	(785)	(1,099)

Movements of our consolidated net deferred income tax assets (liabilities) as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets – balance at beginning of period (Notes 3, 4 and 27)	**6,110**	7,721
Net deferred income tax liabilities – balance at beginning of period (Notes 3, 4 and 27)	**(1,099)**	(1,321)
Net balance at beginning of period	**5,011**	6,400
Business combinations (Note 13)	**3**	–
Provision for deferred income tax (Note 3)	**(30)**	(1,198)
Excess MCIT deducted against RCIT due	**(445)**	–
Movement charged directly to equity	**–**	(139)
Others	**8**	(52)
Net balance at end of period	**4,547**	5,011
Net deferred income tax assets – balance at end of period (Notes 3, 4 and 27)	**5,332**	6,110
Net deferred income tax liabilities – balance at end of period (Notes 3, 4 and 27)	**(785)**	(1,099)

The analysis of our consolidated net deferred income tax assets as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**8,536**	8,789
Deferred income tax assets to be recovered within 12 months	**1,502**	2,222
	10,038	11,011
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(4,061)**	(4,240)
Deferred income tax liabilities to be settled within 12 months	**(645)**	(661)
	(4,706)	(4,901)
Net deferred income tax assets (Notes 3, 4 and 27)	**5,332**	6,110

The analysis of our consolidated net deferred income tax liabilities as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**745**	690
Deferred income tax assets to be recovered within 12 months	**47**	72
	792	762
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,535)**	(1,746)
Deferred income tax liabilities to be settled within 12 months	**(42)**	(115)
	(1,577)	(1,861)
Net deferred income tax liabilities (Notes 3, 4 and 27)	**(785)**	(1,099)

Provision for corporate income tax for the nine months ended September 30, 2011 and 2010 consists of:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Current	**9,689**	9,353
Deferred (Note 3)	**30**	1,621
	9,719	10,974

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax for the nine months ended September 30, 2011 and 2010 are as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Provision for income tax at the applicable statutory tax rates	**12,098**	12,910
Tax effects of:		
Nondeductible expenses	**232**	235
Income subject to final tax	**(317)**	(318)
Income not subject to income tax	**(344)**	(417)
Income subject to lower tax rate	**(439)**	(51)
Equity share in net earnings of associates and joint ventures	**(456)**	(426)
Difference between OSD and itemized deductions	**(1,513)**	(1,091)
Net movement in unrecognized deferred income tax assets and other adjustments	**458**	132
Actual provision for corporate income tax	**9,719**	10,974

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008 which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. Under the OSD method of computing taxable income, corporations may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

Smart and Wolfpac opted to use and availed of the OSD in computing their taxable income for the nine months ended September 30, 2011 and 2010, respectively.

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 in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence 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 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 Php3,086 million and Php2,803 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions*.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of OSD) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
NOLCO	**2,725**	2,292
Accumulated provision for doubtful accounts	**1,379**	1,257
Unearned revenues	**638**	712
Accumulated write-down of inventories to net realizable values	**118**	155
Provisions for other assets	**105**	170
Fixed asset impairment	**104**	112
MCIT	**43**	36
Pension and other employee benefits	**40**	60
Unrealized foreign exchange losses	**28**	29
Derivative financial instruments	**11**	11
Operating lease and others	**10**	6
	5,201	4,840
Unrecognized deferred income tax assets (Note 3)	**1,590**	1,477

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 September 30, 2011 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2008	December 31, 2011	16	392
December 31, 2009	December 31, 2012	7	760
December 31, 2010	December 31, 2013	19	996
September 30, 2011	December 31, 2014	20	1,680
		62	3,828
Consolidated tax benefits		62	1,148
Consolidated unrecognized deferred income tax assets		(43)	(817)
Consolidated recognized deferred income tax assets		19	331

The excess MCIT totaling Php62 million as at September 30, 2011 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php445 million and Php7 million for the nine months ended September 30, 2011 and 2010, respectively.

NOLCO totaling Php3,828 million as at September 30, 2011 can be claimed as deduction against future taxable income. The NOLCO that was claimed as deduction against taxable income amounted to Php472 million and Php51 million for the nine months ended September 30, 2011 and 2010, respectively.

Registration with Subic Bay Freeport and Clark Special Economic Zone

SubicTel is registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

Registration with Philippine Economic Zone Authority, or PEZA

SPi is registered as an Ecozone information technology enterprise to provide IT enabled services with emphasis on the presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and 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.

Two of its facilities (SPi CRM Iloilo and SPi CRM Pasig) enjoy income tax holiday, or ITH, incentive as a Board of Investments, or BOI, registered entity in PEZA registered locations. ITH incentive commenced in March 2005 up to February 2011 for SPi CRM Iloilo. Upon expiration of the ITH, SPi CRM Iloilo is now subject to a special income tax rate of 5% of gross income as a PEZA registered location. ITH incentive commenced in August 2006 for SPi CRM Pasig and it will continue to enjoy ITH up to July 2012. 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 Dumaguete the exemption to pay local business taxes and basic real property taxes on improvements for the period from November 2010 to October 2013.

SHI was registered with the PEZA as an Ecozone 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 ITH for four years starting June 2009.

Chikka Philippines, Inc., or CPI, a subsidiary of Chikka, 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.

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 was entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years, SBI's ITH incentive ended last July 21, 2011. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate enacted as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php1,024 million and Php650 million for the nine months ended September 30, 2011 and 2010, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the nine months ended September 30, 2011 and 2010:

	2011		2010	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited)			
	(in million pesos)			
Consolidated net income for the period attributable to equity holders of PLDT (Note 4)	**30,618**	**30,618**	31,988	31,988
Dividends on preferred shares (Note 19)	**(343)**	**(37)**	(348)	(348)
Consolidated net income for the period attributable to common equity holders of PLDT	**30,275**	**30,581**	31,640	31,640
	(in thousands, except per share amounts)			
Outstanding common shares at beginning of period	**186,756**	**186,756**	186,797	186,797
Effect of issuance of common shares during the period (Note 20)	**–**	**–**	–	–
Common shares equivalent to convertible preferred shares deemed dilutive:				
Preferred Stock Series A to EE	**–**	**1,941**	–	–
Weighted average number of common shares for the period	**186,756**	**188,697**	186,797	186,797
Earnings per share for the period attributable to common equity holders of PLDT	**Php162.11**	**Php162.06**	Php169.38	Php169.38

Basic EPS amounts are calculated by dividing our consolidated net income for the period attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the period.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the period, 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 period 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 period 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.

Series A to EE in 2011 were deemed dilutive based on a calculation of 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 the treasury shares, and compared against the basic EPS. In 2010, since the amount of dividends on Series A to EE over its equivalent number of common shares increased the basic EPS, the Convertible Preferred Stock were deemed anti-dilutive.

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 September 30, 2011 and December 31, 2010. 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 nine months ended September 30, 2011 and 2010. See *Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* for further discussion.

9. Property, Plant and Equipment

Movements in property, plant and equipment account for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
						(in million pesos)				
As at December 31, 2009 (Audited)										
Cost	126,327	87,517	83,451	21,693	35,282	966	8,940	2,458	24,058	390,692
Accumulated depreciation, impairment and amortization	(67,916)	(66,505)	(48,008)	(9,219)	(29,061)	(966)	(7,485)	(276)	–	(229,436)
Net book value	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
Year Ended December 31, 2010 (Audited)										
Net book value at beginning of year	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
Additions	1,494	245	2,336	228	2,045	–	184	–	22,284	28,816
Disposals/Retirements	(10)	(60)	(59)	(286)	(67)	–	–	–	(2)	(484)
Translation differences charged directly to cumulative translation adjustments	23	7	–	(5)	(59)	–	–	–	(4)	(38)
Acquisition through business combinations	–	–	–	–	73	–	–	–	–	73
Impairment losses recognized during the year	–	(11)	–	(13)	(5)	–	(91)	–	–	(120)
Reclassifications/Transfers (Note 12)	4,578	2,440	5,653	823	1,740	–	104	(54)	(15,326)	(42)
Depreciation and amortization	(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

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
						(in million pesos)				
As at December 31, 2010 (Audited)										
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
Period Ended September 30, 2011 (Unaudited)										
Net book value at beginning of period (Note 3)	56,645	19,928	33,955	11,217	7,156	–	1,146	2,127	31,010	163,184
Additions	1,134	305	1,958	196	1,280	–	209	17	9,467	14,566
Disposals/Retirements	(4)	(76)	(26)	(21)	(123)	–	–	(144)	(2)	(396)
Acquisition through business combinations (Note 13)	–	–	–	1	11	–	–	–	–	12
Impairment losses recognized during the period (Notes 3, 4 and 5)	–	(4)	–	–	–	–	–	–	–	(4)
Reclassifications/Transfers (Note 12)	3,596	2,730	2,832	307	1,120	–	153	–	(10,738)	–
Depreciation and amortization (Notes 3 and 4)	(6,368)	(2,632)	(7,370)	(981)	(2,453)	–	(371)	(1)	–	(20,176)
Net book value at end of period (Note 3)	55,003	20,251	31,349	10,719	6,991	–	1,137	1,999	29,737	157,186
As at September 30, 2011 (Unaudited)										
Cost	136,329	92,002	93,769	21,989	39,362	966	8,904	2,277	29,737	425,335
Accumulated depreciation, impairment and amortization	(81,326)	(71,751)	(62,420)	(11,270)	(32,371)	(966)	(7,767)	(278)	–	(268,149)
Net book value (Note 3)	55,003	20,251	31,349	10,719	6,991	–	1,137	1,999	29,737	157,186

Substantially, all our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities*.

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php480 million and Php538 million for the nine months ended September 30, 2011 and 2010, respectively. The average interest capitalization rates used were approximately 6% and 7% for the nine months ended September 30, 2011 and 2010, respectively.

Our undepreciated capitalized net foreign exchange losses which qualified as borrowing costs amounted to Php962 million and Php1,325 million as at September 30, 2011 and December 31, 2010, respectively. There were no additional capitalized foreign exchange differences which qualified as borrowing costs for the nine months ended September 30, 2011 and 2010.

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 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Property, plant and equipment includes the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases amounting to Php3 million and Php4 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 20 – Interest-bearing Financial Liabilities.*

As at September 30, 2011, Smart has accelerated the depreciation of certain transmission network equipment as part of a network modernization program to expand and upgrade Smart's facilities to meet increased demand for cellular and broadband services. Additional depreciation recognized amounted to Php558 million for the three months ended September 30, 2011.

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 contractor, 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 September 30, 2011 and December 31, 2010, this account consists of:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Carrying Value of Investments in Associates:		
Meralco	**6,939**	6,733
Philweb Corporation, or Philweb	**994**	878
ACeS International Limited, or AIL	**–**	–
	7,933	7,611
Carrying Value of Investments in Joint Ventures:		
Beacon	**16,223**	15,438
Mobile Payment Solutions Pte. Ltd., or MPS	**53**	104
ePDS, Inc., or ePDS	**–**	50
PLDT Italy S.r.l., or PLDT Italy	**–**	–
	16,276	15,592
Total carrying value of investments in associates and joint ventures (Note 27)	**24,209**	23,203

Movements in the cost of investments for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of period	**24,636**	24,170
Business combinations (Note 13)	**(6)**	–
Additions during the period (including transfer of interests in Meralco to Beacon)	**–**	15,245
Disposal during the period (including transfer of interests in Meralco to Beacon)	**–**	(14,767)
Translation and other adjustments	**(1)**	(12)
Balance at end of period	**24,629**	24,636

Movements in the accumulated impairment losses for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of period	**1,974**	1,906
Impairment for the period (Notes 3, 4 and 5)	**–**	78
Translation and other adjustments	**–**	(10)
Balance at end of period	**1,974**	1,974

Movements in the accumulated equity share in net earnings of associates and joint ventures for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Balance at beginning of period	**541**	(31)
Equity share in net earnings (losses) of associates and joint ventures for the period (Note 4):	**1,520**	1,408
Beacon	**898**	354
Meralco	**524**	874
Philweb	**150**	161
MPS	**(52)**	(7)
ePDS	**–**	26
Translation and other adjustments	**(10)**	10
Business combinations (Note 13)	**(11)**	–
Dividends	**(486)**	(530)
Disposals	**–**	(316)
Balance at end of period	**1,554**	541

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 FVPL 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.

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 continued to use the equity method to account for its remaining investment in 68.8 million of Meralco's common shares until such time those shares are transferred to Beacon pursuant to an undertaking dated May 9, 2011, where Beacon undertakes to purchase and acquire, and PCEV undertakes to sell and transfer said remaining Meralco shares on or before March 31, 2012, under terms mutually acceptable to them. The carrying value of PCEV's direct investment in Meralco amounted to Php6,939 million with market value of Php16,099 million as at September 30, 2011 based on quoted share price of Php234 per share, while the carrying value of PCEV's direct investment in Meralco amounted to Php6,733 million with market value of Php15,686 million as at December 31, 2010 based on quoted share price of Php228 per share.

On October 19, 2011, PCEV's Board of Directors approved the transfer of PCEV's remaining investment in 68.8 million of Meralco's common shares to Beacon for a total cash consideration of Php15,136 million. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011. With the transfer, PCEV no longer holds directly any share in Meralco while Beacon beneficially owns approximately 45.3% of Meralco's common shares.

The Board of PCEV also authorized the subscription of PCEV to 1.199 billion Beacon preferred shares with an issue value of Php15,136 million. The preferred shares carry a 7% dividend rate, subject to cash availability and retained earnings.

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 September 30, 2011 and December 31, 2010, ePLDT's equity interest in Philweb is 26.4%.

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. The market value of ePLDT's investment in Philweb, based on quoted share price, amounted to Php5,013 million and Php5,358 million as at September 30, 2011 and December 31, 2010, respectively.

Investment of ACeS Philippines in AIL

As at September 30, 2011, 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 income of AIL amounted to Php43 million for the nine months ended September 30, 2011 while unrecognized share in net losses of AIL amounted to Php26 million for the nine months ended September 30, 2010. Share in net cumulative losses amounting to Php2,044 million and Php2,102 million as at September 30, 2011 and December 31, 2010, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions* and *Note 27 – Financial Assets and Liabilities* for further details as to the contractual relationships with respect to AIL.

Summarized Financial Information of Associates

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**8,321**	8,375
Current assets	**5,537**	3,947
Equity	**3,106**	2,723
Noncurrent liabilities	**6,859**	5,503
Current liabilities	**3,893**	4,096

	2011	2010
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**12,079**	11,807
Expenses	**10,094**	10,658
Other expenses	**870**	337
Net income for the period	**793**	639

The above information includes our share in the financial position and operating results of Meralco based on the following summarized financial information at gross amounts as at September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010 as shown below, which were adjusted to conform with our accounting policy on investment properties:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**129,580**	130,423
Current assets	**77,535**	54,831
Equity	**72,025**	68,339
Noncurrent liabilities	**88,101**	72,552
Current liabilities	**46,989**	44,363

	2011	2010
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**192,940**	188,904
Expenses	**163,250**	171,582
Other expenses	**14,441**	5,646
Net income for the period	**9,951**	7,966

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.

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 entitled to liquidation preference and yearly cumulative dividends at the rate of 7% for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) the full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540, million in the aggregate; and (2) Php6,600 million in cash, as further described below in "Transfer of Meralco Shares to Beacon".

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of PCEV's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of PCEV, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

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 in April 2010.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in "Transfer of Meralco Shares to Beacon" section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

On October 19, 2011, PCEV's Board of Directors approved the subscription to 1,199 million Beacon preferred shares for a total cash consideration of Php15,136 million. Beacon's preferred shares are entitled to liquidiation preference and yearly cumulative dividends at the rate of 7%. PCEV and Beacon entered into a Subscription Agreement on October 20, 2011 for said preferred shares.

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) the approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the PCEV Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) the approval of PCEV's Board of Directors, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the approval of the shareholders of PCEV, which was obtained on May 7, 2010. Consequently, on May 12, 2010, PCEV transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million.

The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,083 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon by MPIC and PCEV in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

On October 19, 2011, PCEV's Board of Directors approved the transfer to Beacon of PCEV's remaining investment in 68.8 million of Meralco's common shares for a total cash consideration of Php15,136 million. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011.

Call Option

Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

Governance Arrangements

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure resulted in a jointly controlled entity.

In 2010, Beacon engaged the services of an independent appraiser to provide the fair market values of the operating equity investments, fixed assets and intangible assets of Meralco at the time of Beacon's acquisition of its Meralco shares and allocate the purchase price of Beacon's investment in Meralco among the identifiable assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php50,595 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 for the year ended December 31, 2010.

In various dates in 2011, Beacon acquired from the market additional 49.9 million Meralco common shares or an equivalent of approximately 4.4% beneficial ownership in Meralco at an aggregate nominal value of Php14,691 million.

As at September 30, 2011, Beacon beneficially owned 442 million Meralco common shares representing approximately 39% beneficial ownership in Meralco with a carrying value of Php88,282 million and market value of Php103,532 million based on quoted price of Php234 per share. As at December 31, 2010, Beacon beneficially owned 393 million Meralco common shares representing approximately 34.8% equity interest in Meralco with a carrying value of Php73,322 million and market value of Php89,490 million based on quoted price of Php228 per share.

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common stock from the market, including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to Php17,829 million and Php16,027 million as at September 30, 2011 and December 31, 2010, respectively.

In May 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility amounted to Php4,000 million and was also used to partially finance the acquisition of the additional 49.9 million Meralco common stock from the market. The outstanding balance of the facility amounted to Php3,894 million as at September 30, 2011. The undrawn amount of Php7,000 million is earmarked for payment of final tranche of deferred purchases made in May 2011.

The above facilities were secured by a pledge over Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated debt.

Investment of SHI in MPS

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 MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SHI and MasterCard Asia, respectively. On November 9, 2010, SHI contributed US$2.4 million representing 40% ownership in MPS.

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 Quantium 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. Quantium, the largest international mail services provider, owns the remaining 20% equity interest. ePDS has an initial paid-up capital of Php11 million.

On August 24, 2011, Quantium sold its 17% and 3% equity interest in ePDS to ePLDT and DataPost, respectively. As a result, the Parties, with the conformity of Quantium mutually terminate the Joint Venture Agreement and, henceforth, their respective rights and obligations and the terms and conditions governing their relationship and the management, directors and shareholders of ePDS was set forth in a Shareholder's Agreement. See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations*.

Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% nominal interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

As at September 30, 2011 and December 31, 2010, the aggregate amount of funding contributed by each partner to the joint venture is Euro 3.9 million and Euro 7.8 million, respectively. As at September 30, 2011, PLDT Global has made a full impairment provision on its investment to PLDT Italy.

Summarized Financial Information of Joint Ventures

The following table presents our share in the summarized financial information of our investments in joint ventures as at September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**44,180**	36,697
Current assets	**500**	912
Equity	**28,312**	27,520
Noncurrent liabilities	**14,240**	8,018
Current liabilities	**2,128**	2,071

	2011	2010
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**1,761**	1,088
Expenses	**57**	177
Other expenses	**704**	390
Net income for the period	**1,001**	513

The above information includes our share in the financial position and operating results of Beacon based on the following summarized financial information of Beacon at gross amounts as at September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010 as shown below:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**88,282**	73,322
Current assets	**838**	1,658
Equity	**56,522**	54,956
Noncurrent liabilities	**28,408**	16,027
Current liabilities	**4,190**	3,997

	2011	2010
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Equity share in net income of Meralco	**3,522**	1,951
Expenses	**7**	66
Other expenses	**1,407**	774
Net income for the period	**2,107**	1,111

As at September 30, 2011, we have no outstanding capital commitments with our joint ventures.

11. Investment in Debt Securities

As at September 30, 2011 and December 31, 2010, this account consists of:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
National Power Corporation, or NAPOCOR, Zero Coupon Bond	**351**	334
Rizal Commercial Banking Corporation, or RCBC, Note	**150**	150
Noncurrent portion of investment in debt securities (Note 27)	**501**	484

NAPOCOR Zero Coupon Bonds

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, maturing on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond, which is classified as a financial asset HTM, is carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php17 million and Php16 million for the nine months ended September 30, 2011 and 2010, respectively.

RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC Note may be redeemed at the option of the Issuer at par plus accrued and unpaid interest on February 22, 2013. Smart designated the RCBC Note as HTM financial asset. Interest income recognized on the RCBC Note amounted to Php6 million in each of the nine months ended September 30, 2011 and 2010.

12. Investment Properties

Movements in investment properties account for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of period	**1,560**	1,210
Transfers from property, plant and equipment (Note 9)	**–**	491
Net gains from fair value adjustments charged to profit or loss[1] (Note 3)	**–**	6
Disposals	**–**	(147)
Balance at end of period (Notes 3 and 27)	**1,560**	1,560

[1] *Presented as part of "Other income" in our consolidated income statement.*

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation was based on an open market value, supported by a market evidence in which such assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of valuation. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses related to investment properties amounted to Php58 million and Php66 million for the nine months ended September 30, 2011 and 2010, respectively.

13. Business Combinations

ePLDT's Acquisition of ePDS

On August 24, 2011, Quantium and ePLDT entered into a Deed of Sale of Shares whereby Quantium sold an aggregate 6 million of its shares of common stock equivalent to 17% of the issued and outstanding capital stock of ePDS, to ePLDT for a cash consideration of Php32 million. This additional acquisition of ePDS shares increased ePLDT's shareholding to ePDS from 50% equity interest with a carrying value of Php16.5 million to 67% equity interest with a total carrying value at the time of acquisition of Php49 million.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values on July 31, 2011 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment (Note 9)	12
Goodwill	26
Deferred income tax assets – net (Note 7)	3
Other noncurrent assets	4
Cash and cash equivalents	104
Trade and other receivables	40
Prepayments and other current assets	6
	195
Liabilities:	
Other noncurrent liabilities	9
Accounts payable	89
Accrued expenses and other current liabilities	37
	135
	60
Non-controlling interests	(11)
Net assets acquired	49

Non-controlling interests represent interest not owned by ePLDT, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php39.9 million and Php40.3 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

The goodwill of Php26 million pertains to the fair value of ePDS' printing and enveloping business.

No gain was recognized from revaluation of ePLDT's previously held interest of 50% in ePDS since the carrying value of investment is equal to the fair value at the time of acquisition of non-controlling interest.

Our consolidated revenues would have increased by Php97 million while our consolidated net income would have increased by Php10 million for the nine months ended September 30, 2011 had the acquisition of ePDS actually taken place on January 1, 2011. Total revenues and net income of ePDS included in our consolidated income statement from August 24, 2011 to September 30, 2011 amounted to Php28 million and Php3 million, respectively.

PLDT's Acquisition of Digital Telecommunications Philippines, Inc., or Digitel

On March 29, 2011, the Board Directors 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) 3.28 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 30, 2010 (the "Assets"). Digitel operates a fixed line business in certain parts of the country and 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 common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

The completion of the acquisition was subject to the procurement of certain regulatory and other approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock; (ii) the confirmation by the Philippine SEC of the valuation of the 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 Securities Regulation Code, or SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets and the Digitel shares which shall have been tendered pursuant to the tender offer. In addition, the sale of the Digitel shares owned by the seller-parties is subject to the consent of certain creditors of Digitel and DMPI.

The acquisition was completed on October 26, 2011 following the issuance by the SEC on July 29, 2011 of the confirmations referred to in clauses (ii) and (iv) above, by the NTC on October 26, 2011 of the approval referred to in clause (i) above, and by the PSE on October 26, 2011 of the approval referred to in clause (iii) above. PLDT's common shareholders had earlier approved the issuance of PLDT common shares as payment for the Assets during PLDT stockholder's meeting held on June 14, 2011.

As part of the NTC approval of the acquisition of Digitel by PLDT, or the Decision, the NTC also approved the divestment plan presented by PLDT, which covers the following commitments:

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

- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band, or the Affected Frequency, and related permits, or the Divestment Sale; and

- PLDT will have a period of nine months to effect the orderly migration of CURE's customers and an orderly transfer of CURE's assets to Smart with the least disruption and degradation of service to CURE's existing customers, or the Transition Period. The Transition Period will be reckoned from the date of promulgation of the Decision.

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

Under the SRC, PLDT is required to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the remaining non-controlling shareholders of Digitel upon completion of the acquisition of 51.55% interest. Under the tender offer, PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 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 Digitel shareholders. The 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 common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel. The 29.65 million new PLDT common shares will represent up to approximately 13.7% of the enlarged issued and outstanding common stock of PLDT.

Assuming full acceptance by the non-controlling shareholders of Digitel, the total transaction consideration would be approximately Php74.1 billion.

The Divestment Sale will be conducted within six months after the Transition Period provided the Decision shall have become final and executory. However, in the event that there will be a delay in the implementation of the Divestment Sale by reason of appeal or any legal challenge against the Decision, CURE will continue to pay Spectrum User's Fee and other related fees which will form part of the Cost Recovery Amount. While the Divestment Sale is pending, the PLDT group will not use the Affected Frequency.

Digitel and DMPI have outstanding long-term debts that are guaranteed by JGS. The loans and guarantees contain representations and covenants applicable only to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI have provided the necessary notices and obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGS by PLDT as guarantor under these loans. The amendments to the covenants and the PLDT guarantee will take effect upon completion of the acquisition.

The PLDT shares that were issued as payment for the Assets are subject to a lock-up period of one (1) year during which JGS and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT.

PLDT has granted consents to the potential sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS has entered into with an associate company of First Pacific and NTT Docomo, respectively. Following the sale of these shares, expected to occur within 30 days from the listing date of the PLDT shares issued to JGS, the JG Summit Group will own approximately 8.0% of PLDT's common shares.

Below is the pro-forma condensed statement of financial position and income statement based on the latest available financial information as at and for the nine months ended September 30, 2011, which was prepared for the purpose of presenting the impact of the transaction with the closing date of October 26, 2011. Additional assumptions used in preparing the pro-forma are detailed in the footnotes provided below.

The pro-forma adjustments will not affect the unaudited consolidated financial statements of PLDT and Digitel as at and for the nine months ended September 30, 2011 as business combinations are accounted for at the date of business combination, or October 26, 2011, and prospectively. Prior period's financial statements are not restated as a result of business combination transaction.

In the pro-forma condensed statement of financial position below, the purchase price consideration was allocated on the assumption that the book values as at September 30, 2011 equal their fair values. Allocation of purchase price consideration and the amount of goodwill recognized will be adjusted accordingly based on the result of the valuation by an independent appraiser, which will be engaged by PLDT.

As at September 30, 2011 (Unaudited)	PLDT	DIGITEL	PRO-FORMA ADJUSTMENT	PRO-FORMA RESULTS
		(in million pesos)		
ASSETS				
Noncurrent Assets				
Property, plant and equipment	157,186	81,446	–	238, 632
Investments in associates and joint ventures	24,209	–	–	24,209
Goodwill and intangible assets	11,387	–	14,447[(1)]	25,834
Other noncurrent assets	17,492	3,252	138[(5)]	20,882
Total Noncurrent Assets	210,274	84,698	14,585	309,557
Current Assets				
Cash and cash equivalents	32,716	1,292	–	34,008
Other current assets	23,880	5,286	–	29,166
Total Current Assets	56,596	6,578	–	63,174
TOTAL ASSETS	266,870	91,276	14,585	372,731
EQUITY AND LIABILITIES				
Equity				
Paid in capital	61,753	8,976	55,517[(2)]	126,246
Retained earnings	25,375	(7,084)	6,761[(3)]	25,052
Equity reserve	–	(1,831)	1,831[(3)]	–
Other comprehensive income	(1,134)	–	–	(1,134)
Total Equity Attributable to Equity Holders of PLDT	85,994	61	64,109	150,164
Non-controlling interests	441	–	–	441
TOTAL EQUITY	86,435	61	64,109	150,605
Noncurrent Liabilities				
Interest-bearing financial liabilities – net of current portion	70,178	16,915	–	87,093
Other noncurrent liabilities	22,153	62,677	(54,587)[(4)]	30,243
Total Noncurrent Liabilities	92,331	79,592	(54,587)	117,336
Current Liabilities				
Accounts payable	22,732	8,675	–	31,407
Accrued expenses and other current liabilities	37,466	–	461[(5)]	37,927
Put-option liability	–	–	4,602[(1)]	4,602
Other current liabilities	27,906	2,948	–	30,854
Total Current Liabilities	88,104	11,623	5,063	104,790
TOTAL LIABILITIES	180,435	91,215	(49,524)	222,126
TOTAL EQUITY AND LIABILITIES	266,870	91,276	14,585	372,731

(1) Includes pro-forma adjustments on the acquisition of the Assets and the accounting of the mandatory tender offer, which gives all non-controlling Digitel shareholders the option to exchange their Digitel common shares either for PLDT common shares or cash. The acquisition of the assets and mandatory tender offer are treated as linked transactions, thus, it is assumed that PLDT acquired 100% equity interest of Digitel as at the date of the completion of the transaction, which is October 26, 2011. The mandatory offer requires recognition of financial liability measured by multiplying the number of shares held by the non-controlling Digitel shareholders with the agreed rate of Php1.60 per Digitel share as at acquisition date. In addition, the pro-forma adjustments were calculated using Php2,330, the share price of PLDT common shares at October 26, 2011. The amount allocated to net assets of Digitel is based on provisional accounting wherein it was assumed that the carrying value of Digitel Net Assets approximate their Fair Values as at September 30, 2011, which is the latest period for which financial data is available, and the difference between the total consideration transferred and the carrying value of the net assets at acquisition date refers entirely to goodwill. The value of embedded equity option resulting from the option granted to the non-controlling Digitel shareholders to avail of the tender offer in the form of PLDT common shares instead of cash was assumed to have a value of zero as at September 30, 2011.

(2) Includes pro-forma adjustments on the issuance of PLDT New Shares at the issue price of Php2,330 per share, equivalent to the market value of share price at October 26, 2011, net of elimination of Digitel Paid-in Capital.

(3) Relates to transaction costs incurred, net of tax, and the elimination of Digitel equity upon consolidation.

(4) Relates to the elimination upon consolidation of Bonds Payable and Advance that are part of the Assets acquired by PLDT from JGS Group.

(5) Relates to accrual of transaction costs incurred to close the transaction.

For the Nine Months Ended September 30, 2011 (Unaudited)	PLDT	DIGITEL	PRO-FORMA ADJUSTMENT	PRO-FORMA RESULTS
		(in million pesos)		
REVENUES				
Service revenues	103,245	13,821	–	117,066
Non-service revenues	1,781	205	–	1,986
	105,026	14,026	–	119,052
EXPENSES				
Depreciation and amortization	20,176	3,925	–	24,101
Compensation and employee benefits	15,963	6,997	–	22,960
Repairs and maintenance	6,925	–	–	6,925
Selling and promotions	4,496	–	–	4,496
Professional and other contracted services	3,644	–	461(1)	4,105
Cost of sales	3,583	1,559	–	5,142
Rent	2,958	–	–	2,958
Taxes and licenses	1,842	–	–	1,842
Asset impairment	1,184	254	–	1,438
Other expenses	3,574	–	–	3,574
	64,345	12,735	461	77,541
	40,681	1,291	(461)	41,511
OTHER INCOME (EXPENSES)	(355)	(1,352)	803(2)	(904)
INCOME BEFORE INCOME TAX	40,326	(61)	342	40,607
PROVISION FOR INCOME TAX	9,719	(77)	103(3)	9,745
NET INCOME FOR THE PERIOD	30,607	16	239	30,862
ATTRIBUTABLE TO:				
Equity holders of Parent Company	30,618	16	239	30,873
Non-controlling interests	(11)	–	–	(11)
	30,607	16	239	30,862
Earnings Per Share For The Year Attributable to Common Equity Holders				
Basic	162.11	0.002	–	142.37
Diluted	162.06	0.002	–	142.37

(1) *Relates to transaction costs incurred to close the transaction. Under PFRS 3, such expenses are treated as period cost.*
(2) *Relates to the assumed interest income recognized by PLDT on the bonds payable, which is part of the Assets, and is eliminated upon consolidation against the financing costs recognized by Digitel.*
(3) *Relates to the tax effects of the adjustments of the transaction cost and interest income.*

14. Goodwill and Intangible Assets

Movements in goodwill and intangible assets for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	Intangible Assets: Customer List	Spectrum	Licenses	Technology Application	Trademark	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
				(in million pesos)				
September 30, 2011 (Unaudited)								
Costs:								
Balance at beginning of period	1,632	1,205	554	993	159	4,543	14,733	19,276
Additions	7	–	2	–	–	9	26	35
Business combination	–	–	(436)	–	–	(436)	(600)	(1,036)
Translation and other adjustments	(1)	–	–	55	(1)	53	290	343
Balance at end of period	1,638	1,205	120	1,048	158	4,169	14,449	18,618
Accumulated amortization and impairment:								
Balance at beginning of period	1,212	509	426	977	41	3,165	4,626	7,791
Amortization during the period (Note 3)	116	60	15	6	10	207	–	207
Business combination	–	–	(407)	–	–	(407)	(386)	(793)
Translation and other adjustments	(2)	–	5	52	(1)	54	(28)	26
Balance at end of period	1,326	569	39	1,035	50	3,019	4,212	7,231
Net balance at end of period (Notes 3 and 27)	**312**	**636**	**81**	**13**	**108**	**1,150**	**10,237**	**11,387**

	Intangible Assets							
	Customer List	Spectrum	Licenses	Technology Application	Trademark	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
				(in million pesos)				
Estimated useful lives (in years)	1 – 8	15	18	3 – 5	1 – 10	–	–	–
Remaining useful lives (in years)	2 – 6	8	11	1 – 4	8	–	–	–
December 31, 2010 (Audited)								
Costs:								
Balance at beginning of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Additions	19	–	19	4	1	43	–	43
Translation and other adjustments	(42)	–	(78)	22	131	33	(468)	(435)
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	56	–	18	–	–	74	1,169	1,243
Amortization during the year	219	81	36	11	41	388	–	388
Translation and other adjustments	(58)	–	(76)	2	–	(132)	(352)	(484)
Balance at end of year	1,212	509	426	977	41	3,165	4,626	7,791
Net balance at end of year (Notes 3 and 27)	**420**	**696**	**128**	**16**	**118**	**1,378**	**10,107**	**11,485**
Estimated useful lives (in years)	1 – 8	15	2 – 18	3 – 5	1 – 10	–	–	–
Remaining useful lives (in years)	1 – 7	9	1 – 12	2 – 4	9	–	–	–

Intangible Assets

Intangible Assets from Acquisition of SPi and CyMed, Inc., or CyMed

In 2010, ePLDT recognized an impairment of its remaining intangible assets from the acquisition of SPi and CyMed amounting to Php19 million and Php38 million, respectively, pertaining to the medical transcription business of SPi, since the carrying amount of the individual assets from SPi and CyMed were deemed unrecoverable.

There were no impairment indicators identified as at September 30, 2011. Annual impairment testing will be performed at year-end.

Intangible Assets from Acquisition of Chikka and PDSI

In 2010, Smart recognized intangible assets of Php132 million for technology and tradename and Php23 million for technology and customer base acquired in the purchase of Chikka Group and PDSI, respectively, based on the result of the valuation done by an independent appraiser.

There were no impairment indicators identified as at September 30, 2011. Annual impairment testing will be performed at year-end.

The consolidated future amortization of intangible assets as at September 30, 2011 is as follows:

Year	(in million pesos)
2011[(1)]	64
2012	255
2013	195
2014	123
2015 and onwards	513
Balance at end of period	1,150

[(1)] *October 1, 2011 through December 31, 2011.*

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 September 30, 2011, Smart's goodwill comprised of goodwill resulting from Smart's acquisition of SBI in 2004, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access from ePLDT in 2008 and Smart's acquisition of PDSI and Chikka in 2009. The test for recoverability of Smart's goodwill was applied to the wireless asset group, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among Smart, CURE, SBI and PDSI through subscribers availing themselves of their respective cellular (for Smart and CURE) and wireless broadband (for SBI and PDSI) services, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common-used network/platform. In the case of CURE, it provides cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. With the common use of wireless assets of Smart in providing 3G cellular and wireless broadband access, the lowest level of assets of CURE, SBI and PDSI for which cash flows are clearly identifiable from other groups of assets is Smart's wireless business segment. On the other hand, Chikka's mobile applications and content are developed mainly for the cellular subscribers of Smart and CURE.

The recoverable amount of this segment had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a five-year period from 2011 to 2015. The pre-tax discount rate applied to cash flow projections is 8.8% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

There were no impairment indicators identified as at September 30, 2011. Annual impairment testing will be performed at year-end.

Goodwill from Acquisition of SPi and its Subsidiaries, CyMed, Springfield Service Corporation, or Springfield, and Laguna Medical Systems, Inc., or Laguna Medical

The goodwill acquired through the SPi, CyMed, Springfield and Laguna Medical transactions was allocated for impairment testing to each of the 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 for the year ended December 31, 2010 pertaining to the medical transcription business of SPi and CyMed.

There were no impairment indicators identified as at September 30, 2011. Annual impairment testing will be performed at year-end.

Goodwill from Acquisition of Level Up!

Goodwill acquired from our acquisition in 2006 of a 60% equity interest in Level Up! was tested for impairment. ePLDT recognized an impairment charge of Php48 million for the year ended December 31, 2010 pertaining to the goodwill from acquisition of Level Up! based on the expected selling price of Level Up!. See *Note 2 – Summary of Significant Accounting Policies* for the related discussion on the sale of investment in Level Up!.

Goodwill from Acquisition of Digital Paradise

Goodwill acquired from the acquisition of Digital Paradise was tested for impairment based on the recoverable amount of the 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. See *Note 2 – Summary of Significant Accounting Policies* for the related discussion on the sale of investment in Digital Paradise.

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.

15. Cash and Cash Equivalents

As at September 30, 2011 and December 31, 2010, this account consists of:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Cash on hand and in banks (Note 27)	**2,822**	2,906
Temporary cash investments (Note 27)	**29,894**	33,772
	32,716	36,678

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 27 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php986 million and Php811 million for the nine months ended September 30, 2011 and 2010, respectively.

16. Trade and Other Receivables

As at September 30, 2011 and December 31, 2010, this account consists of receivables from:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Corporate subscribers (Notes 24 and 27)	**8,667**	7,998
Retail subscribers (Note 27)	**8,484**	8,917
Foreign administrations (Note 27)	**5,335**	4,479
Domestic carriers (Notes 24 and 27)	**1,456**	1,591
Dealers, agents and others (Notes 18, 24 and 27)	**4,264**	5,273
	28,206	28,258
Less allowance for doubtful accounts (Notes 3, 5 and 27)	**12,411**	11,830
(Notes 3, 5 and 27)	**15,795**	16,428

Movements in the allowance for doubtful accounts for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

	Total	Corporate Subscribers	Retail Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
September 30, 2011 (Unaudited)						
Balance at beginning of period	11,830	5,956	5,045	158	138	533
Provisions for the period (Notes 3, 4 and 5)	1,134	491	594	8	5	36
Write-offs	(50)	(586)	550	13	(1)	(26)
Translation and other adjustments	(503)	(188)	(297)	–	(10)	(8)
Balance at end of period	12,411	5,673	5,892	179	132	535
Individual impairment	9,330	5,033	3,604	179	132	382
Collective impairment	3,081	640	2,288	–	–	153
	12,411	5,673	5,892	179	132	535
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,330	5,033	3,604	179	132	382
December 31, 2010 (Audited)						
Balance at beginning of year	11,950	6,677	4,480	289	83	421
Provisions for the year	834	152	493	–	64	125
Write-offs	(932)	(562)	(284)	(5)	–	(81)
Translation and other adjustments	(22)	(311)	356	(126)	(9)	68
Balance at end of year	11,830	5,956	5,045	158	138	533
Individual impairment	8,861	5,413	2,745	158	138	407
Collective impairment	2,969	543	2,300	–	–	126
	11,830	5,956	5,045	158	138	533
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,861	5,413	2,745	158	138	407

Receivables from foreign administrations and domestic carriers represent receivables 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 September 30, 2011 and December 31, 2010, this account consists of:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Spare parts and supplies:		
At net realizable value	**1,365**	1,152
At cost	**1,895**	2,163
Terminal and cellular phone units:		
At net realizable value	**975**	737
At cost	**1,145**	918
Others:		
At net realizable value	**506**	330
At cost	**507**	333
Total inventories and supplies at the lower of cost or net realizable value (Notes 3, 4, 5 and 27)	**2,846**	2,219

The cost of inventories and supplies recognized as expense for the nine months ended September 30, 2011 and 2010 are as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Cost of sales	**1,273**	1,981
Repairs and maintenance	**318**	241
Write-down of inventories and supplies (Notes 3, 4 and 5)	**43**	42
	1,634	2,264

18. Prepayments

As at September 30, 2011 and December 31, 2010, this account consists of:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Prepaid taxes	**6,175**	7,476
Prepaid benefit costs (Notes 3 and 25)	**5,574**	5,333
Prepaid selling and promotions	**893**	1,011
Prepaid fees and licenses	**210**	40
Prepaid rent – net (Notes 3 and 5)	**114**	53
Prepaid insurance (Note 24)	**60**	122
Other prepayments	**147**	62
	13,173	14,097
Less current portion of prepayments (Note 27)	**4,352**	5,418
Noncurrent portion of prepayments (Note 27)	**8,821**	8,679

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations less unrecognized net actuarial gains or losses recognized in our consolidated statements of financial position. See *Note 25 – Employee Benefits*.

Agreement between PLDT and Smart with ABC Development Corporation, or 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 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 each as at September 30, 2011 and December 31, 2010.

19. Equity

The movements of PLDT's capital account for the nine months September 30, 2011 and for the year ended December 31, 2010 are as follows:

	Preferred Stock – Php10 par value per share				Common Stock – Php5 par value per share	
	Series A to II	**IV**	**Total Preferred Stock**			
	Number of Shares			**Amount**	**Number of Shares**	**Amount**
				(in millions)		
Authorized			823	Php8,230	234	Php1,170
Issued						
Balances as at January 1, 2010	405	36	441	Php4,416	189	Php947
Issuance	1	–	1	3	–	–
Balances as at December 31, 2010 (Audited)	**406**	**36**	**442**	**Php4,419**	**189**	**Php947**
Balances as at January 1, 2011	406	36	442	Php4,419	189	Php947
Issuance	–	–	–	1	–	–
Conversion	–	–	–	–	–	–
Balances as at September 30, 2011 (Unaudited)	**406**	**36**	**442**	**Php4,420**	**189**	**Php947**

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 370 shares of Series II 10% Cumulative Convertible Preferred Stock issued as at September 30, 2011, while there were no issued Series II 10% Cumulative Convertible Preferred Stock as at December 31, 2010.

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to II 10% Cumulative Convertible Preferred Stock earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at September 30, 2011 and December 31, 2010, were Php5.00 each 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.

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments (the "Amendments"). The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the Board of Directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines (a Qualified Owner). The holders of Voting Preferred Stock shall have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock.

The Special Meeting of Stockholders scheduled on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments, or the Special Meeting, was cancelled by the Board of Directors due to an anticipated lack of quorum. Based on the validated and tabulated proxies reported by PLDT's Transfer Agents, the Corporate Secretary determined that: (1) holders of shares equivalent to 73.27% of the total outstanding common stock had given valid proxies to be represented and vote their shares in the Special Meeting; and (2) the number of shares of preferred stock necessary to bring the total shares represented in person or by proxy and to vote at the Special Meeting to two-thirds of total outstanding capital stock, being the quorum required for the Special Meeting, would most likely not be secured. Under the Corporation Code, holders of preferred shares are also entitled to vote on significant corporate actions, such as the amendment of the Articles of Incorporation, which is the principal item in the Agenda for the Special Meeting.

The Board of Directors plans to call another special meeting of stockholders on such date to be announced in due course.

After the approval of the Amendments by the stockholders and the PSEC, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, may determine the specific terms, features and limitations of the Voting Preferred Stock and, as it deems necessary to protect the interest of PLDT and its stakeholders, authorize the issuance of shares of Voting Preferred Stock to Qualified Owners. It is contemplated that the shares of Voting Preferred Stock will have the following other features: (a) entitled to dividends at such rate to be determined by the Board of Directors, payable before any dividends are paid to the holders of Common Stock; (b) not convertible to Common Stock or to any shares of stock of PLDT of any class; (c) redeemable at the option of PLDT; (d) holders will have no pre-emptive right to subscribe or purchase any shares of stock of any class, or convertible debt, securities or warrants issued, sold or disposed by PLDT; and (e) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to holders of shares of Common Stock.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's 10% Cumulative Convertible Preferred Stock Series A to FF, which were issued pursuant to the PLDT SIP, or the SIP Shares, effective on January 19, 2012, or the Redemption Date.

PLDT has fixed October 10, 2011, as the Record Date for the determination of holders of outstanding SIP Shares subject to Redemption, or the Holders of SIP Shares. In accordance with the terms and conditions of the SIP Shares, PLDT will, on the Redemption Date, pay each holder of SIP shares as of the Record Date, an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

On or before the Redemption Date, PLDT will set aside such amount required to fund the Redemption Price for the SIP Shares, or the Redemption Trust Fund. The Redemption Trust Fund will be deposited in a trust account in the name of a designated financial institution, as trustee (respectively, the "Trust Account" and the "Trustee"), which shall be available for the aforestated purpose. The Trustee will continue to hold in trust, for the benefit of those Holders of SIP Shares who have failed to claim their Redemption Price on the Redemption Date, or the Non-Claiming Holders, such amount equal to the unclaimed Redemption Price of the SIP Shares of the Non-Claiming Holders, or the Unclaimed Redemption Amount, for a period of ten years from and after the Redemption Date or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

Notwithstanding that any stock certificate representing the SIP Shares is not surrendered for cancellation on the Redemption Date, the SIP Shares shall no longer be deemed outstanding and, from and after the Redemption Date, the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP Shares shall forthwith cease and terminate, except only the right to receive the Redemption Price, but without interest thereon.

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

In a circular issued by the PSE dated October 4, 2011, the PSE granted PLDT's request to stop the trading of the SIP Shares comprising Series A to FF effective October 5, 2011, in connection with the Redemption.

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 core earnings per share, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at September 30, 2011 and December 31, 2010. See *Note 8 – Earnings Per Common Share* and *Note 27 – Financial Assets and Liabilities*.

Dividends Declared

Our dividends declared for the nine months ended September 30, 2011 and 2010 are detailed as follows:

September 30, 2011 (Unaudited)

	Date			Amount	
Class	Approved	Record	Payable	Per Share	Total
					(in million pesos)
10% Cumulative Convertible Preferred Stock					
Series CC	January 25, 2011	February 24, 2011	March 31, 2011	Php1.00	17
Series DD	January 25, 2011	February 10, 2011	February 28, 2011	1.00	3
Series FF	January 25, 2011	February 10, 2011	February 28, 2011	1.00	–
Series GG	January 25, 2011	February 24, 2011	March 31, 2011	1.00	–
Series EE	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series HH	March 29, 2011	April 28, 2011	May 31, 2011	1.00	–
Series A, I, R, W, AA and BB	July 5, 2011	August 3, 2011	August 31, 2011	1.00	128
Series B, F, Q, V and Z	August 2, 2011	September 1, 2011	September 30, 2011	1.00	91
Series E, K, O and U	September 20, 2011	October 7, 2011	October 31, 2011	1.00	44
Series C, D, J, T and X	September 20, 2011	October 20, 2011	November 29, 2011	1.00	57
					340
Cumulative Non-convertible Redeemable Preferred Stock					
Series IV*	January 25, 2011	February 18, 2011	March 15, 2011	Php–	12
	May 10, 2011	May 27, 2011	June 15, 2011	–	12
	August 2, 2011	August 18, 2011	September 15, 2011	–	13
					37
Common Stock					
Regular Dividend	March 1, 2011	March 16, 2011	April 19, 2011	Php78.00	14,567
	August 2, 2011	August 31, 2011	September 27, 2011	78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
					41,460
					41,837

* *Dividends were declared based on total amount paid up.*

September 30, 2010 (Unaudited)

	Date			Amount	
Class	Approved	Record	Payable	Per Share	Total
					(in million pesos)
10% Cumulative Convertible Preferred Stock					
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	Php1.00	17
Series DD	January 26, 2010	February 11, 2010	February 26, 2010	1.00	3
Series EE	March 26, 2010	April 23, 2010	May 31, 2010	1.00	–
Series A, I, R, W, AA and BB	July 7, 2010	August 5, 2010	August 31, 2010	1.00	128
Series B, F, Q, V and Z	August 3, 2010	September 2, 2010	September 30, 2010	1.00	92
Series E, K, O and U	August 31, 2010	September 30, 2010	October 29, 2010	1.00	44
Series C, D, J, T and X	September 28, 2010	October 28, 2010	November 30, 2010	1.00	57
					341
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2010	February 19, 2010	March 15, 2010	Php–	12
	May 13, 2010	May 27, 2010	June 15, 2010	–	13
	August 3, 2010	August 18, 2010	September 15, 2010	–	12
					37
Common Stock					
Regular Dividend	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00	14,197
	August 3, 2010	August 19, 2010	September 21, 2010	78.00	14,570
Special Dividend	March 2, 2010	March 17, 2010	April 20, 2010	65.00	12,142
					40,909
Charged to retained earnings					41,287

** Dividends are declared based on total amount paid up.*

Our dividends declared after September 30, 2011 are detailed as follows:

Class	**Date Approved**	**Date Record**	**Date Payable**	**Amount Per Share**	**Amount Total**
					(in million pesos)
Cumulative Non-convertible Redeemable Preferred Stock					
Series IV*	November 3, 2011	November 19, 2011	December 15, 2011	Php–	12
10% Cumulative Convertible Preferred Stock					
Series G	November 3, 2011	December 1, 2011	December 29, 2011	Php1.00	2
Series N	November 3, 2011	December 1, 2011	December 29, 2011	1.00	5
Series P	November 3, 2011	December 1, 2011	December 29, 2011	1.00	9
Series S	November 3, 2011	December 1, 2011	December 29, 2011	1.00	10
					26

* *Dividends were declared based on total amount paid up.*

20. Interest-bearing Financial Liabilities

As at September 30, 2011 and December 31, 2010, this account consists of the following:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 4, 5, 9, 23 and 27)	**70,172**	75,879
Obligations under finance leases (Notes 3, 4, 5, 23 and 27)	**6**	9
	70,178	75,888
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27)	**19,436**	13,767
Notes payable (Notes 4, 5, 23 and 27)	**1,095**	–
Obligations under finance leases maturing within one year (Notes 3, 4, 5, 23 and 27)	**7**	34
	20,538	13,801

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 September 30, 2011 and December 31, 2010 are as follows:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Long-term debt (Note 27)	**2,336**	2,944
Obligation under finance lease	**1**	1
Unamortized debt discount at end of period	**2,337**	2,945

The following table describes all changes to unamortized debt discount for the nine months ended September 30, 2011 and for the year ended December 31, 2010.

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Unamortized debt discount at beginning of period	**2,945**	3,861
Revaluations during the period	**135**	(16)
Additions during the period	**39**	114
Accretion during the period included as part of "Financing costs – net – Accretion on financial liabilities – net" (Note 5)	**(782)**	(1,014)
Unamortized debt discount at end of period	**2,337**	2,945

Long-term Debt

As at September 30, 2011 and December 31, 2010, long-term debt consists of:

Description	Interest Rates	2011 (Unaudited)		2010 (Audited)	
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Finnvera, Plc, or Finnvera	2.99% and US$ LIBOR + 1.35% in 2011 and 2.99% and US$ LIBOR + 0.05% to 1.35% in 2010	**US$68**	**Php2,975**	US$82	Php3,590
Exportkreditnamnden, or EKN	3.79% in 2011 and 2010	**12**	**509**	14	613
		80	**3,484**	96	4,203
Fixed Rate Notes	8.35% to 11.375% in 2011 and 2010	**377**	**16,502**	375	16,450
Term Loans:					
Debt Exchange Facility	2.25% in 2011 and 2010	**235**	**10,278**	223	9,791
GSM Network Expansion Facilities	4.70% and US$ LIBOR + 0.42% to 1.85% in 2011 and 4.515% to 4.70% and US$ LIBOR + 0.42% to 1.85% in 2010	**53**	**2,317**	97	4,230
Others	2.79% + swap rate and US$ LIBOR + 0.42% to 0.50% in 2011 and 2010	**53**	**2,344**	85	3,740
		US$798	**34,925**	US$876	38,414
Philippine Peso Debts:					
Corporate Notes	5.625% to 9.1038% and PDST-F + 1.25% in 2011 and 2010		**33,664**		29,677
Term Loans:					
Unsecured Term Loans	5.8308% to 8.6271% and PDST-F + 0.30% in 2011 and 6.125% to 8.7792% and PDST-F + 0.30% to 1.50% in 2010		**20,946**		21,439
Secured Term Loans	PDST-F + 1.375% and AUB's prime rate in 2011 and 2010		**73**		116
			54,683		51,232
Total long-term debt			**89,608**		89,646
Less portion maturing within one year (Note 27)			**19,436**		13,767
Noncurrent portion of long-term (Note 27)			**Php70,172**		Php75,879

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at September 30, 2011 are as follows:

Year	U.S. Dollar Debt In U.S. Dollar	U.S. Dollar Debt In Php	Php Debt In Php	Total In Php
	(in millions)			
2011[(1)]	13	575	1,513	2,088
2012	234	10,226	9,176	19,402
2013	59	2,568	8,577	11,145
2014	305	13,365	6,175	19,540
2015 and onwards	239	10,479	29,290	39,769
	850	37,213	54,731	91,944

(1) *October 1, 2011 through December 31, 2011.*

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 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$29 million, or Php1,282 million, and US$39 million, or Php1,703 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

On October 9, 2009, Smart signed a US$50 million five-year term loan facility to finance GSM equipment and services contracts with 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 and was drawn on April 7, 2010 and was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual payments. The amounts of US$39 million, or Php1,693 million, and US$43 million, or Php1,887 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

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$12 million, or Php516 million, and US$14 million, or Php613 million, both net of unamortized debt discount, as at September 30, 2011 and December 31, 2010, respectively.

On June 10, 2011, Smart signed a US$49 million five-year term loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as Original Lender, Arranger and Facility Agent which will subsequently assign its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No availment has been made on this facility as at November 3, 2011.

Fixed Rate Notes

PLDT has the following non-amortizing fixed rate notes outstanding as at September 30, 2011 and December 31, 2010:

Principal Amount	Interest Rate	Maturity Date	2011 (Unaudited)		2010 (Audited)	
			(in millions)			
US$234,259,000	8.350%	March 6, 2017	**US$232**	**Php10,157**	US$231	Php10,149
US$145,789,000	11.375%	May 15, 2012	**145**	**6,345**	144	6,301
			US$377	**Php16,502**	US$375	Php16,450

Term Loans

US$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US$289 million, or 69.4%, 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$235 million, or Php10,278 million, and US$223 million, or Php9,791 million, both net of unamortized debt discount, as at September 30, 2011 and December 31, 2010, respectively. The Facility will be payable in full on June 30, 2014.

GSM Network Expansion Facilities

On August 8, 2005, Smart signed a US$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US$30 million. The amount of US$6 million, or Php263 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on July 22, 2011.

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 million. The amount of US$9 million, or Php387 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on July 15, 2011.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company 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$14 million, or Php608 million, and US$22 million, or Php973 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

On October 10, 2007, Smart signed a US$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch 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$15 million, or Php655 million, and US$25 million, or Php1,091 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

On November 27, 2008, Smart signed a US$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with 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$25 million, or Php1,085 million, and US$35 million, or Php1,516 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

On June 6, 2011, Smart signed a US$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Lender. The loan is payable over five years in eight equal semi-annual installments with the first installment on the eighteenth month from signing date. No availment has been made on this facility as at November 3, 2011.

On August 19, 2011, Smart signed a US$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with Finnish Export Credit, Plc., as Lender on Record. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, LTD., the Hong Kong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at November 3, 2011.

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$30 million, or Php1,314 million, and US$50 million, or Php2,191 million, remained outstanding as at September 30, 2011 and December 31, 2010, 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$23 million, or Php1,030 million, and US$32 million, or Php1,417 million, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East, or BLME, for a total of US$19 million, which will mature on various dates from June 30, 2013 to September 30, 2014. The amount of US$3 million, or Php132 million, remained outstanding as at December 31, 2010 and was deconsolidated in June 2011.

Philippine Peso Debts:

<u>Corporate Notes</u>

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 Php4,961 million and Php4,962 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart’s capital expenditures for network upgrade and expansion. The amounts of Php4,874 million and Php4,867 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amounts of Php4,952 million and Php4,976 million remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php3,000 Million Corporate Notes

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php2,997 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The Series A1, B1, and B2 were paid in full on January 10, 2011, July 8, 2011 and September 1, 2011, respectively.

Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amount of Php6,891 million each remained outstanding as at September 30, 2011 and December 31, 2010.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility were used to finance capital expenditures and/or to refinance PLDT's loan obligations which were also used to finance capital expenditures for network expansion and improvement. The amount of Php2,500 million each remained outstanding as at September 30, 2011 and 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 amounts of Php2,486 million and Php2,484 million, net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011. Tranche B amounting to Php1,000 million was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The aggregate amount of Php2,000 million remained outstanding as at September 30, 2011. The facility is payable in full, five years from the respective issue dates.

Php5,000 Million Fixed Rate Corporate Notes

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A 5-year notes amounting to Php3,435 million, Series B 7-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at September 30, 2011.

Php5,000 Million Fixed Rate Corporate Notes

On October 28, 2011, PLDT priced Php5 billion 5-year, 7-year and 10-year fixed rate notes at yields of 5.4692%, 5.4963% and 6.2188%, respectively. Proceeds from the facilities will be used to finance capital expenditures for network expansion and improvement and to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The notes will be issued on November 8, 2011.

<u>*Term Loans*</u>

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 Php139 million and Php555 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

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 Php1,403 million and Php1,870 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The amounts of Php1,278 million and Php1,533 million remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The amounts of Php1,667 million and Php2,000 million remained outstanding as at September 30, 2011 and December 31, 2010, 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 Php1,059 million and Php1,412 million remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

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 September 30, 2011 and December 31, 2010.

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 Php1,497 million and Php1,494 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php1,000 Million Term Loan Facility

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amount of Php997 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on January 3, 2011.

Php1,000 Million Term Loan Facility

On May 15, 2009, Smart signed a Philippine Peso term loan facility with 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 amount of Php996 million, net of unamortized debt discount, remained outstanding as at December 31, 2010. The debt was paid in full on January 3, 2011.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at September 30, 2011 and December 31, 2010.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments commencing on September 15, 2010 with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009. The amounts of Php1,059 million and Php1,324 million remained outstanding as at September 30, 2011 and December 31, 2010, respectively.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at September 30, 2011 and December 31, 2010.

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 Php750 million and Php935 million, both net of unamortized debt discount, remained outstanding as at September 30, 2011 and December 31, 2010, 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 Php1,529 million and Php1,882 million remained outstanding as at September 30, 2011 and December 31, 2010, 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 Php765 million and Php941 million remained outstanding as at September 30, 2011 and December 31, 2010, 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 and remained outstanding as at September 30, 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 and remained outstanding as at September 30, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

Php300 Million Term Loan Facility

On April 4, 2011, PLDT signed a loan agreement with the Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php300 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The amount of Php300 million was fully drawn on April 28, 2011 and remained outstanding as at September 30, 2011.

Php500 Million Term Loan Facility

On April 4, 2011, PLDT signed a loan agreement with the Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php500 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at September 30, 2011.

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 Php73 million and Php113 million as at September 30, 2011 and December 31, 2010, respectively.

Notes Payable

On April 1, 2011, SPi availed of short-term loans from Bank of the Philippine Islands and Security Banking Corporation amounting to US$9 million and US$16 million, respectively. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month. The aggregate amount of US$25 million, or Php1,095 million, remained outstanding as at September 30, 2011.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 40% and 43% of PLDT's total consolidated debts as at September 30, 2011 and December 31, 2010, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; (e) merging or consolidating with any other company; (f) entering into transactions with stockholders and affiliates; and (g) entering into sale and leaseback transactions.

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 September 30, 2011, we were in compliance with all of our debt covenants.

Obligations Under Finance Leases

The consolidated future minimum payments for finance leases as at September 30, 2011 are as follows:

Year	(in million pesos)
Within one year	3
After one year but not more than five years	11
Total minimum finance lease payments (Note 27)	14
Less amount representing unamortized interest	1
Present value of net minimum finance lease payments (Notes 3 and 27)	13
Less obligations under finance leases maturing within one year (Notes 9 and 27)	7
Long-term portion of obligations under finance leases (Notes 9 and 27)	6

Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and SPi Group have finance lease obligations in the aggregate amounts of Php14 million and Php18 million as at September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, this account consists of:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**12,764**	12,040
Provision for asset retirement obligations (Notes 3 and 9)	**1,440**	1,344
Unearned revenues (Note 23)	**156**	114
Others	**8**	69
	14,368	13,567

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 nine months ended September 30, 2011 and for the year ended December 31, 2010:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Provision for asset retirement obligations at beginning of period	**1,344**	1,204
Accretion expenses for the period (Note 5)	**80**	97
Additional liability recognized during the period (Note 28)	**18**	49
Settlement of obligations	**(2)**	(6)
Provision for asset retirement obligations at end of period (Note 3)	**1,440**	1,344

22. Accounts Payable

As at September 30, 2011 and December 31, 2010, this account consists of:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Suppliers and contractors (Note 27)	**18,368**	20,957
Carriers (Note 27)	**1,892**	1,866
Taxes (Notes 26 and 27)	**1,793**	2,114
Related parties (Notes 24 and 27)	**512**	244
Others	**167**	623
	22,732	25,804

23. Accrued Expenses and Other Current Liabilities

As at September 30, 2011 and December 31, 2010, this account consists of:

	2011 (Unaudited)	2010 (Audited)
	(in million pesos)	
Accrued utilities and related expenses (Notes 24 and 27)	**21,819**	19,941
Accrued employee benefits (Notes 3, 25 and 27)	**4,855**	3,853
Unearned revenues (Note 21)	**4,779**	4,698
Accrued taxes and related expenses (Notes 26 and 27)	**3,501**	2,236
Accrued interests and other related costs (Notes 20 and 27)	**901**	1,028
Liability recognized for contingent consideration arising from business acquisitions (Notes 14 and 21)	**–**	1,632
Others	**1,611**	2,571
	37,466	35,959

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.

Liability Recognized for Contingent Consideration Arising from Business Acquisitions

Contingent consideration for business acquisitions was recognized in relation to SPi's acquisition cost of Springfield and Laguna Medical on April 12, 2007 and August 31, 2009, respectively.

SPi acquired 100% of Springfield plus contingent consideration with fair value at acquisition date of US$18 million, or Php894 million. The adjusted fair value of contingent consideration, as revised after effecting adjustments on forecasted earn-out and accretion, amounted to US$24 million, or Php1,032 million, and US$35 million, or Php1,547 million, as at September 30, 2011 and December 31, 2010, 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.

All the remaining contingent considerations were paid in full last July 2011.

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 Php83 million and Php93 million for the nine months ended September 30, 2011 and 2010, respectively. Under the Amended ATPA, the outstanding obligations of PLDT amounted to Php149 million and Php140 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 5 – Income and Expenses*.

b. Agreements between PLDT and certain subsidiaries with Meralco

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to Php1,761 million and Php1,513 million for the nine months ended September 30, 2011 and 2010, respectively. Under these agreements, the outstanding utilities payable amounted to Php196 million and Php183 million as at September 30, 2011 and December 31, 2010, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts amounted to Php164 million and Php148 million for the nine months ended September 30, 2011 and 2010, respectively. Under these agreements, the outstanding obligations amounted to Php1 million and Php111 million as at September 30, 2011 and December 31, 2010, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures* for additional transactions involving Meralco.

c. Transactions with Major Stockholders, Directors and Officers

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at September 30, 2011 (unaudited) and December 31, 2010 (audited) and for the nine months ended September 30, 2011 and 2010 (unaudited) are as follows:

1. Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DoCoMo

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DoCoMo, the FP Parties, NTT Communications and NTT DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and

- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DoCoMo*. Each of NTT Communications and NTT DoCoMo has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

- *Limitation on Competition*. NTT Communications, NTT DoComo and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DoCoMo with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- *Business Cooperation*. PLDT and NTT DoCoMo agreed in principle to collaborate with each other on the business development, roll-out and use of a W-CDMA mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DoCoMo.

- *Additional Rights of NTT DoCoMo*. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DoCoMo and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DoCoMo has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

    1. NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

    4. PLDT must first consult with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

  NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT's outstanding common stock as at September 30, 2011 and December 31, 2010.

- *Change in Control*. Each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DoCoMo, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DoCoMo in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DoCoMo or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

2. *Advisory Service Agreement between NTT DoCoMo and PLDT*

An Advisory Services Agreement was entered into by NTT DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php54 million and Php56 million for the nine months ended September 30, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT amounted to Php8 million and Php13 million as at September 30, 2011 and December 31, 2010, respectively.

3. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses; and

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant.

Total fees under these agreements amounted to Php81 million and Php83 million for the nine months ended September 30, 2011 and 2010, respectively. Under these agreements, the outstanding obligations of PLDT amounted to Php50 million and Php44 million as at September 30, 2011 and December 31, 2010, respectively.

4. *Agreement between Smart and Asia Link B.V., or ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group. 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 Php434 million and Php461 million for the nine months ended September 30, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of Smart amounted to Php233 million and Php90 million as at September 30, 2011 and December 31, 2010, respectively.

5. *Agreements Relating to Insurance Companies*

Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php165 million and Php264 million for the nine months ended September 30, 2011 and 2010, respectively. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at March 31, 2011 and December 31, 2010, while one director of PLDT has direct/indirect interests in or serve as a director/officer of Gotuaco as at December 31, 2010.

d. *Others*

See *Note 18 – Prepayments* for other related party transactions.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the nine months ended September 30, 2011 and 2010 are as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Short-term employee benefits	**541**	424
Share-based payments and other long-term employee benefits (Note 25)	**249**	206
Post-employment benefits (Note 25)	**46**	12
Total compensation paid to key officers of the PLDT Group	**836**	642

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as an expenses during the reporting period related to key management personnel.

25. Employee Benefits

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 September 30, 2011 and December 31, 2010 are as follows:

	(in million pesos)
Present value of defined benefit obligations as at December 31, 2010 (Audited)	14,604
Fair value of plan assets as at December 31, 2010 (Audited)	20,001
Surplus status – net	(5,397)
Unrecognized net actuarial gains (Note 3)	479
	(4,918)
Contributions	(19)
Business combinations	(48)
Net actuarial pension benefit income during the period (Note 3)	(171)
Translation adjustments	9
	(5,147)
Accrued benefit costs as at September 30, 2011 (Unaudited) (Note 3)	427
Prepaid benefit costs as at September 30, 2011 (Unaudited) (Notes 3 and 18)	(5,574)

Net pension benefit costs (income) for the nine months ended September 30, 2011 and 2010 were computed as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Components of net pension benefit costs (income):		
Interest costs	**872**	1,169
Current service costs	**610**	743
Amortizations of unrecognized net actuarial losses (gains)	**(9)**	17
Expected return on plan assets	**(1,644)**	(1,754)
Net periodic benefit costs (income) (Notes 3 and 5)	**(171)**	175
Consolidated pension benefit income	**241**	–
Consolidated pension benefit costs	**70**	175

Actual return on plan assets amounted to a gain of Php2,519 million for the year ended December 31, 2010.

The weighted average assumptions used to determine pension benefits as at September 30, 2011 (unaudited) and December 31, 2010 (audited) are as follows:

Average remaining working years of covered employee	19
Expected rate of return on plan assets	11%
Discount rate	8%
Rate of increase in compensation	8%

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 Php418 million and Php428 million as at September 30, 2011 and December 31, 2010, 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, temporary cash investments, 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 September 30, 2011 and December 31, 2010 is as follows:

	2011	2010
	(Unaudited)	(Audited)
Investments in listed and unlisted equity securities	**93%**	70%
Temporary cash investments	**4%**	24%
Investments in debt and fixed income securities	**2%**	2%
Investments in mutual funds	**1%**	1%
Investments in real estate	**–**	3%
	100%	100%

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 September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010 is as follows:

	2011	2010
	(Unaudited)	(Audited)
Investments in debt and fixed income securities	**62%**	58%
Investments in listed and unlisted equity securities	**21%**	37%
Others	**17%**	5%
	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

Net consolidated pension benefit costs (income) for the nine months ended September 30, 2011 and 2010 are as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Expense recognized for defined benefit plans	**70**	175
Expense recognized for defined contribution plans	**133**	22
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	**203**	197
Consolidated pension benefit income	**241**	–
Net consolidated pension benefit costs (income)	**(38)**	197

Other Long-term Employee Benefits

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and the Board of Directors, and is based on profit targets for the covered Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets. LTIP costs recognized for the nine months ended September 30, 2011 and 2010 amounted to Php1,132 million and Php1,061 million, respectively, while the total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php2,524 million and Php1,392 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions* and *Note 5 – Income and Expenses*.

Net periodic benefit costs computed for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Current service costs	**1,037**	1,029
Interest costs	**49**	17
Net actuarial loss	**46**	15
Net periodic benefit costs	**1,132**	1,061

26. Provisions and Contingencies

NTC Supervision and Regulation Fees, or SRF

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

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

PLDT's Local Business and Franchise Tax Assessments

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082.

PLDT believes that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, PLDT has paid a total amount of Php1,033 million as at September 30, 2011 for local franchise tax covering prior periods up to September 30, 2011.

As at September 30, 2011, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The RTC rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. The City of Tuguegarao has filed a Motion for Reconsideration which was denied by the court in its Order dated March 2, 2009. The City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. The motion to dismiss is now submitted for resolution by the honorable court. With regards to the latter case, PLDT filed the Petition last July 8, 2011 before the RTC of Makati City for the assessment of business tax in addition to franchise tax for the years 2006 to 2011. The City of Tuguegarao has yet to file its Answer to the said Petition.

Moreover, PLDT also contested the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction specifically that of the City of Tuguegarao, in the amount of Php3 million for the years 1999 to 2006. The RTC in its decision dated February 25, 2009, ruled in favor of PLDT, stating that the Province of Cagayan can no longer tax PLDT for transactions taking place in the City of Tuguegarao. The Province of Cagayan filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 7, 2009. The Province of Cagayan filed a Petition for Review before the CTA. After filing its Comment and the submission of the respective memoranda of both parties, PLDT received the Decision of the CTA on September 20, 2010 which affirmed with modifications the Decision of the RTC. Though said Decision affirmed that the Province of Cagayan cannot impose franchise tax on gross receipts realized in the City of Tuguegarao, the CTA ruled that PLDT is subject to surcharge and interest for the years 1999 to 2004 thereby reducing the amount refundable to PLDT from Php2.8 million to Php1 million. Both parties filed a partial motion for reconsideration of the said decision as well as comment on the other party's motion. In a resolution dated January 27, 2011, the CTA partially granted the motion for reconsideration of PLDT by modifying its decision stating that the Province of Cagayan's right to assess surcharge and interest for local franchise tax for the period of 1998 has already prescribed thereby increasing the amount refundable to PLDT by Php0.059 million.

Smart's Local Business and Franchise Tax Assessments

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In 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 Distraint and Levy dated July 23, 2010. Smart sent a letter to the City of Makati on August 10, 2010 inquiring on the status of Smart's request for reinvestigation and requested for a meeting. On August 19, 2010, Smart's representatives met with the City of Makati officials and 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 maintain the status quo until a hearing can be had to determine the propriety of injunctive relief conditioned upon posting a bond by Smart. In an Order dated September 23, 2010, the RTC of the City of Makati (Branch 133) issued a Writ of Preliminary Injunction conditioned upon posting a bond by Smart. Smart submitted the bond with the RTC of the City of Makati (Branch 133) on October 4, 2010. The City of Makati filed a Motion for Reconsideration of the Order dated September 23, 2010, which was denied.

Meanwhile, the City of Makati filed a Motion to Dismiss dated September 15, 2010 and a Motion to Inhibit dated September 21, 2010, which were both denied as well as the Motions for Reconsideration from the Orders denying the said motions.

Thus, the City of Makati filed with the Court of Appeals a Petition for Certiorari [With Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated December 16, 2010, seeking to annul the 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. Smart filed its Comment on the Petition on March 16, 2011. No ruling has been issued as regards City of Makati's application for a temporary restraining order and preliminary injunction. On May 12, 2011, the Court of Appeals issued a resolution stating that the case is now submitted for resolution.

In a decision promulgated on July 26, 2011, the Court of Appeals dismissed the Petition of Makati City, et al. for lack of jurisdiction.

In the RTC case, Smart has presented two witnesses and will continue presenting its third witness on December 8, 2011.

Meanwhile, Smart also received similar local franchise tax assessments issued by the City of Iloilo. The RTC of Iloilo likewise ruled in favor of Smart in its Decision dated January 19, 2005 (Civil Case No. 02-27144) declaring Smart as exempt from payment of local franchise tax. The City of Iloilo appealed the Decision and the Supreme Court, on February 27, 2009, (G.R. No. 167260) ruled that Smart is liable to pay the local franchise tax to the City of Iloilo. On April 2, 2009, Smart filed its Motion for Reconsideration. On July 1, 2009, the Supreme Court's Special Second Division issued a Resolution denying Smart's Motion for Reconsideration. In accordance with this Decision, Smart paid the City of Iloilo.

In 2002, Smart filed a special civil action for declaratory relief for the ascertainment of its rights and obligations under the Tax Code of the City of Davao. The relevant section of Smart's franchise provided that the grantee shall pay a franchise tax equivalent to 3% of all gross receipts of the business transacted under the franchise by the grantee and the said percentage shall be in lieu of all taxes on the franchise or earnings thereof. On September 16, 2008, the Supreme Court's Third Division ruled that Smart is liable for local franchise tax since the phrase *"in lieu of all taxes"* merely covers national taxes and was rendered inoperative when the VAT law took effect. On October 21, 2008, Smart filed its Motion for Reconsideration. Smart argued that the operative word in the *"in lieu of all taxes"* clause in Smart's franchise is the word *"all"*. The word *"all"* before *"taxes"* in the clause *"in lieu of all taxes"* covers all kinds of taxes, national and local, except only those mentioned in the franchise. Smart also argued that the BIR already clarified in its Revenue Memorandum Circular No. 5-96 dated March 31, 1997 that the VAT merely replaced the franchise tax. On July 21, 2009, the Supreme Court's Third Division promulgated its Resolution denying Smart's Motion for Reconsideration and affirming that Smart is liable to pay local franchise tax to the City of Davao. On June 3, 2010, Smart received an initial local franchise tax assessment from the City of Davao covering the years from 1997 to 2010. Smart filed on June 21, 2010 its letter of protest against the local franchise tax assessment citing its local tax exemption by virtue of its BOI registration. On July 6, 2010, Smart received a letter from the City of Davao requesting for the submission of additional documents. Smart submitted several documents on August 3, 2010. In reply to Smart's protest, the City of Davao answered several issues, made an assessment and demanded for the settlement of the local franchise tax. Smart received the reply on October 26, 2010. On November 11, 2010, Smart protested the assessment. In an unsigned letter received by Smart on December 17, 2010, the City of Davao maintained that Smart is obligated to pay the local franchise tax assessed.

In an Indorsement dated February 10, 2011, the City of Davao Legal Office issued an Opinion recognizing that Smart's Tax exemption, being a BOI registered enterprise, shall commence from the date of registration with the Board (six years for pioneer business enterprise), pursuant to the provisions of Section 133(g) of the Local Government Code in relation to Article 11 of the Omnibus Investment Code of 1987. On March 15, 2011, the City of Davao issued its revised local franchise tax assessment which Smart paid on March 29, 2011.

With the finality of the Cities of Iloilo and Davao cases, several cities and provinces have began discussions with Smart on the settlement of alleged local franchise tax within their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the Cities of 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.

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

Matters Relating to Gamboa Case

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

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

As of the date hereof, the Decision in the Gamboa Case is under reconsideration and has not become final and executory. To the best of PLDT's knowledge, the PSEC has not commenced any proceeding to determine if PLDT is in violation of Section 11, Article XII of the 1987 Constitution. A finding by the PSEC that there is a violation of Section 11, Article XII of the 1987 Constitution by PLDT may subject the latter to sanctions under Philippine law, including possible revocation of its franchise.

On July 5, 2011, the Board of Directors of PLDT (the "Board") approved the creation of a new class of redeemable preferred shares with full voting rights (the "Voting Preferred Shares") and the further amendment of the Amended Articles of Incorporation of PLDT that will authorize the Board to issue the Voting Preferred Shares as and when the Board determines such issuance to be necessary. The amendment to the Amended Articles of Incorporation of PLDT will require the approval by the stockholders of PLDT and the approval of the PSEC. Upon approval of the amendment of the Amended Articles of Incorporation of PLDT by the PSEC, up to 150,000,000 Voting Preferred Shares could be initially issued by the Board and that upon issuance of such Voting Preferred Shares to Filipinos and Filipino-owned entities, the total foreign equity in the total resulting voting shares of PLDT will be reduced from the current 64% to about 36%. A Special Meeting of Stockholders ("Special Meeting") of PLDT was scheduled on September 20, 2011, at which meeting the amendment was supposed to be submitted to PLDT's stockholders for approval. The Special Meeting was not held, however, due to lack of quorum, and will be reset to a later date to be determined by the Board.

27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies*.

The following table sets forth our financial assets and financial liabilities as at September 30, 2011 and December 31, 2010:

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial assets	Financial liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
					(in million pesos)				
Assets as at September 30, 2011 (Unaudited)									
Noncurrent:									
Property, plant and equipment	–	–	–	–	–	–	–	157,186	157,186
Investments in associates and joint ventures	–	–	–	–	–	–	–	24,209	24,209
Available-for-sale financial assets	–	–	–	–	150	–	150	–	150
Investment in debt securities	–	501	–	–	–	–	501	–	501
Investment properties	–	–	–	–	–	–	–	1,560	1,560
Goodwill and intangible assets	–	–	–	–	–	–	–	11,387	11,387
Deferred income tax assets – net	–	–	–	–	–	–	–	5,332	5,332
Prepayments – net of current portion	–	–	–	–	–	–	–	8,821	8,821
Advances and refundable deposits – net of current portion	928	–	–	–	–	–	928	200	1,128
Current:				–					
Cash and cash equivalents	32,716	–	–	–	–	–	32,716	–	32,716
Short-term investments	37	–	522	–	–	–	559	–	559
Trade and other receivables	15,795	–	–	–	–	–	15,795	–	15,795
Inventories and supplies	–	–	–	–	–	–	–	2,846	2,846
Derivative financial assets	–	–	226	7	–	–	233	–	233
Current portion of prepayments	–	–	–	–	–	–	–	4,352	4,352
Current portion of advances and refundable deposits	18	–	–	–	–	–	18	77	95
Total assets	49,494	501	748	7	150	–	50,900	215,970	266,870
Liabilities as at September 30, 2011 (Unaudited)									
Noncurrent:									
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	70,178	70,178	–	70,178
Deferred income tax liabilities – net	–	–	–	–	–	–	–	785	785
Derivative financial liabilities	–	–	1,759	–	–	–	1,759	–	1,759
Pension and other employee benefits	–	–	–	–	–	–	–	2,984	2,984
Customers' deposits	–	–	–	–	–	2,257	2,257	–	2,257
Deferred credits and other noncurrent liabilities	–	–	–	–	–	12,765	12,765	1,603	14,368
Current:									
Accounts payable	–	–	–	–	–	20,919	20,919	1,813	22,732
Accrued expenses and other current liabilities	–	–	–	–	–	28,941	28,941	8,525	37,466
Derivative financial liabilities	–	–	857	–	–	–	857	–	857
Provision for assessments	–	–	–	–	–	–	–	1,555	1,555
Current portion of interest-bearing financial liabilities	–	–	–	–	–	20,538	20,538	–	20,538
Dividends payable	–	–	–	–	–	2,468	2,468	–	2,468
Income tax payable	–	–	–	–	–	–	–	2,488	2,488
Total liabilities	–	–	2,616	–	–	158,066	160,682	19,753	180,435
Net assets (liabilities)	**49,494**	**501**	**(1,868)**	**7**	**150**	**(158,066)**	**(109,782)**	**196,217**	**86,435**
Assets as at December 31, 2010 (Audited)									
Noncurrent:									
Property, plant and equipment	–	–	–	–	–	–	–	163,184	163,184
Investments in associates and joint ventures	–	–	–	–	–	–	–	23,203	23,203
Available-for-sale financial assets	–	–	–	–	147	–	147	–	147
Investment in debt securities	–	484	–	–	–	–	484	–	484
Investment properties	–	–	–	–	–	–	–	1,560	1,560
Goodwill and intangible assets	–	–	–	–	–	–	–	11,485	11,485
Deferred income tax assets – net	–	–	–	–	–	–	–	6,110	6,110
Derivative financial assets	–	–	178	–	–	–	178	–	178
Prepayments – net of current portion	–	–	–	–	–	–	–	8,679	8,679
Advances and refundable deposits – net of current portion	984	–	–	–	–	–	984	203	1,187
Current:									
Cash and cash equivalents	36,678	–	–	–	–	–	36,678	–	36,678
Short-term investments	152	–	517	–	–	–	669	–	669
Trade and other receivables	16,428	–	–	–	–	–	16,428	–	16,428
Inventories and supplies	–	–	–	–	–	–	–	2,219	2,219
Derivative financial assets	–	–	5	–	–	–	5	–	5
Current portion of prepayments	–	–	–	–	–	–	–	5,418	5,418
Current portion of advances and refundable deposits	16	–	–	–	–	–	16	165	181
Total assets	54,258	484	700	–	147	–	55,589	222,226	277,815

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial assets	Financial liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
					(in million pesos)				
Liabilities as at December 31, 2010 (Audited)									
Noncurrent:									
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
Current:				–					
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
Net assets (liabilities)	**54,258**	**484**	**(2,904)**	**–**	**147**	**(158,534)**	**(106,549)**	**203,934**	**97,385**

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities as at September 30, 2011 and December 31, 2010:

	Carrying Value		Fair Value	
	2011	2010	**2011**	2010
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
		(in million pesos)		
Noncurrent Financial Assets				
Available-for-sale financial assets:				
Listed equity securities	**81**	78	**81**	78
Unlisted equity securities	**69**	69	**69**	69
Investment in debt securities	**501**	484	**519**	502
Derivative financial assets:				
Long-term currency swap	**–**	178	**–**	178
Advances and refundable deposits – net of current portion	**928**	984	**848**	915
Total noncurrent financial assets	**1,579**	1,793	**1,517**	1,742
Current Financial Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**2,822**	2,906	**2,822**	2,906
Temporary cash investments	**29,894**	33,772	**29,894**	33,772
Short-term investments	**559**	669	**559**	669
Trade and other receivables – net:				
Foreign administrations	**5,156**	4,321	**5,156**	4,321
Corporate subscribers	**2,994**	2,042	**2,994**	2,042
Retail subscribers	**2,592**	3,872	**2,592**	3,872
Domestic carriers	**1,324**	1,453	**1,324**	1,453
Dealers, agents and others	**3,729**	4,740	**3,729**	4,740
Derivative financial assets:				
Current portion of long-term currency swap	**226**	–	**226**	–
Forward foreign exchange contracts	**7**	–	**7**	–
Bifurcated embedded derivatives	**–**	5	**–**	5
Current portion of advances and refundable deposits	**18**	16	**18**	16
Total current financial assets	**49,321**	53,796	**49,321**	53,796
Total Financial Assets	**50,900**	55,589	**50,838**	55,538
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**70,172**	75,879	**75,175**	82,244
Obligations under finance leases	**6**	9	**5**	8
Derivative financial liabilities:				
Long-term currency swap	**1,759**	3,604	**1,759**	3,604
Customers' deposits	**2,257**	2,223	**1,674**	1,701
Deferred credits and other noncurrent liabilities	**12,765**	12,041	**11,898**	11,457
Total noncurrent financial liabilities	**86,959**	93,756	**90,511**	99,014

	Carrying Value		Fair Value	
	2011	2010	**2011**	2010
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	(in million pesos)			
Current Financial Liabilities				
Accounts payable:				
Suppliers and contractors	**18,368**	20,957	**18,368**	20,957
Carriers	**1,892**	1,866	**1,892**	1,866
Related parties	**512**	244	**512**	244
Others	**147**	606	**147**	606
Accrued expenses and other current liabilities:				
Utilities and related expenses	**21,589**	19,739	**21,589**	19,739
Employee benefits	**4,840**	3,852	**4,840**	3,852
Interests and other related costs	**901**	1,028	**901**	1,028
Others	**1,611**	4,203	**1,611**	4,203
Derivative financial liabilities:				
Current portion of long-term currency swap	**857**	–	**857**	–
Interest-bearing financial liabilities:				
Current portion of long-term debt	**19,436**	13,767	**19,436**	13,767
Notes payable	**1,095**	–	**1,095**	–
Obligations under finance leases	**7**	34	**7**	34
Dividends payable	**2,468**	2,086	**2,468**	2,086
Total current financial liabilities	**73,723**	68,382	**73,723**	68,382
Total Financial Liabilities	**160,682**	162,138	**164,234**	167,396

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at September 30, 2011 and December 31, 2010. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2011 (Unaudited)			2010 (Audited)		
	Level 1[(1)]	**Level 2**[(2)]	**Total**	Level 1[(1)]	Level 2[(2)]	Total
	(in million pesos)					
Noncurrent Financial Assets						
Available-for-sale financial assets –						
Listed equity securities	**81**	**–**	**81**	78	–	78
Derivative financial assets	**–**	**–**	**–**	–	178	178
Current Financial Assets						
Short-term investments	**–**	**522**	**522**	–	517	517
Derivative financial assets	**–**	**233**	**233**	–	5	5
Total	**81**	**755**	**836**	78	700	778
Noncurrent Financial Liabilities						
Derivative financial liabilities	**–**	**1,759**	**1,759**	–	3,604	3,604
Current Financial Liabilities						
Derivative financial liabilities	**–**	**857**	**857**	–	–	–
Total	**–**	**2,616**	**2,616**	–	3,604	3,604

(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 market prices that are either directly or indirectly observable for the assets or liabilities.*

As at September 30, 2011 and December 31, 2010, we have no financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3).

As at September 30, 2011 and December 31, 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	Fair Value Assumptions
Noncurrent portion of advances and 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 Other loans in all other currencies	Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing rates for similar types of loans.
Variable rate loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.
Customers' deposits and deferred credits and other noncurrent liabilities	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.

Derivative Financial Instruments:

Foreign currency options: The fair values were computed using an option pricing model using market volatility rates of the U.S. dollar and Philippine peso exchange rate as at valuation date.

Forward foreign exchange contracts, bifurcated foreign currency forwards and foreign currency swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

Available-for-sale financial assets: Fair values of available-for-sale financial assets, which consist of proprietary listed shares, were determined using quoted prices. Investments in unlisted securities are carried at cost less any accumulated impairment losses.

Investment in debt securities: Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, current investment in debt securities, trade and other receivables, current portion of advances and 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 September 30, 2011, SPi and SPi CRM designated forward foreign exchange contracts as cash flow hedges.

The table below sets out the information about our derivative financial instruments as at September 30, 2011 and December 31, 2010:

		2011		2010	
		(Unaudited)		(Audited)	
	Maturity	**Notional**	**Mark-to-market Gains (Losses)**	Notional	Mark-to-market Gains (Losses)
			(in millions)		
PLDT					
Transactions not designated as hedges:					
Currency swaps	2017	**US$222**	**(Php1,759)**	US$222	(Php2,651)
	2012	**100**	**(857)**	100	(953)
	2012	**60[(1)]**	**226**	60[(1)]	178
			(2,390)		(3,426)
ePLDT Group					
Cash flow hedges:					
Forward foreign exchange contracts	2012	**58**	**5**	–	–
	2011	**14**	**2**	–	–
Transactions not designated as hedges:					
Bifurcated embedded derivatives	2012	–	–	1	5
			7		5
Net liabilities			**(Php2,383)**		(Php3,421)

[(1)] *Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement maturing in 2012.*

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Presented as:		
Noncurrent assets	**–**	178
Current assets	**233**	5
Noncurrent liabilities	**(1,759)**	(3,604)
Current liabilities	**(857)**	–
Net liabilities	**(2,383)**	(3,421)

Analysis of gains (losses) on derivative financial instruments for the nine months ended September 30, 2011 and 2010 are as follows:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Net mark-to-market losses at end of period	**(2,383)**	(2,357)
Net mark-to-market losses at beginning of period	**(3,421)**	(2,745)
Net change	**1,038**	388
Net gains on cash flow hedges charged to other comprehensive income	**(7)**	–
Settlements, accretion and conversion	**(137)**	(525)
Hedge cost	**(268)**	(358)
Net gains (losses) on derivative financial instruments (Note 4)	**626**	(495)

PLDT

Due to the amounts of PLDT’s foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

Currency Swaps

PLDT has entered into long-term principal-only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. These long-term currency swaps have an aggregate notional amount of US$322 million with total mark-to-market losses of Php2,616 million and Php3,604 million as at September 30, 2011 and December 31, 2010, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php50.45 as at September 30, 2011 and December 31, 2010. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 2.96% and 2.93% per annum as at September 30, 2011 and December 31, 2010, respectively.

On various dates in 2010, the long-term principal only-currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php372 million and Php168 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US$100 million and US$222 million for the swaps maturing in 2012 and 2017, respectively, with mark-to-market losses of Php953 million and Php2,651 million, respectively, as at December 31, 2010.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US$60 million to effectively unwind a portion of the outstanding long-term principal only 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 fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php226 million and Php178 million as at September 30, 2011 and December 31, 2010, respectively.

ePLDT Group

In February and March 2011, SPi and SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses maturing March 2011 up to February 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged. The outstanding forward foreign exchange contracts that were designated as hedges amounted to US$27 million and US$45 million for SPi and SPi CRM, respectively, with aggregate mark-to-market gain of Php7 million as at September 30, 2011.

Level Up! embedded derivatives were bifurcated from various license contracts and other service agreements denominated in U.S. dollar. The aggregate notional amount of these bifurcated embedded currency forwards amounted to US$1 million as at December 31, 2010. The total mark-to-market gains of these bifurcated embedded currency forwards amounted to Php5 million as at December 31, 2010. There were no outstanding embedded currency forward contracts as at September 30, 2011 due to deconsolidation of Level Up! in July 11, 2011.

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php689 million as at September 30, 2011 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php32,716 million and Php559 million, respectively, as at September 30, 2011. See *Note 15 – Cash and Cash Equivalents.*

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at September 30, 2011 and December 31, 2010:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
September 30, 2011 (Unaudited)					
Loans and receivables:	59,083	58,165	818	57	43
Advances and refundable deposits	946	28	818	57	43
Cash equivalents	29,894	29,894	–	–	–
Short-term investments	37	37	–	–	–
Corporate subscribers	8,667	8,667	–	–	–
Retail subscribers	8,484	8,484	–	–	–
Foreign administrations	5,335	5,335	–	–	–
Domestic carriers	1,456	1,456	–	–	–
Dealers, agents and others	4,264	4,264	–	–	–
HTM investments:	501	–	501	–	–
Investment in debt securities	501	–	501	–	–
Financial instruments at FVPL:	522	522	–	–	–
Short-term investments	522	522	–	–	–
Available-for-sale financial assets	150	–	–	–	150
Total	**60,256**	**58,687**	**1,319**	**57**	**193**
December 31, 2010 (Audited)					
Loans and receivables:	63,182	62,202	897	45	38
Advances and refundable deposits	1,000	20	897	45	38
Cash equivalents	33,772	33,772	–	–	–
Short-term investments	152	152	–	–	–
Retail subscribers	8,917	8,917	–	–	–
Corporate subscribers	7,998	7,998	–	–	–
Foreign administrations	4,479	4,479	–	–	–
Domestic carriers	1,591	1,591	–	–	–
Dealers, agents and others	5,273	5,273	–	–	–
HTM investments:	484	–	484	–	–
Investment in debt securities	484	–	484	–	–
Financial instruments at FVPL:	517	517	–	–	–
Short-term investments	517	517	–	–	–
Available-for-sale financial assets	147	–	–	–	147
Total	**64,330**	**62,719**	**1,381**	**45**	**185**

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at September 30, 2011 and December 31, 2010:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in million pesos)				
September 30, 2011 (Unaudited)					
Debt[(1)]:	*113,547*	*13,923*	*52,710*	*28,028*	*18,886*
Principal	93,039	12,992	39,773	23,089	17,185
Interest	20,508	931	12,937	4,939	1,701
Lease obligations:	*9,093*	*5,146*	*1,775*	*989*	*1,183*
Operating lease	9,079	5,142	1,767	987	1,183
Finance lease	14	4	8	2	–
Unconditional purchase obligations[(2)]	*629*	*202*	*263*	*164*	–
Other obligations:	*66,632*	*48,438*	*13,949*	*679*	*3,566*
Derivative financial liabilities[(3)]:	3,826	666	990	672	1,498
Long-term currency swap	3,826	666	990	672	1,498
Various trade and other obligations:	62,806	47,772	12,959	7	2,068
Suppliers and contractors	31,104	18,368	12,736	–	–
Utilities and related expenses	17,984	17,945	39	–	–
Employee benefits	4,862	4,860	1	1	–
Customers' deposits	2,257	–	183	6	2,068
Dividends	2,468	2,468	–	–	–
Carriers	1,892	1,892	–	–	–
Others	2,239	2,239	–	–	–
Total contractual obligations	**189,901**	**67,709**	**68,697**	**29,860**	**23,635**
December 31, 2010 (Audited)					
Debt[(1)]:	*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
Lease obligations:	*8,003*	*4,383*	*1,710*	*948*	*962*
Operating lease	7,959	4,353	1,697	947	962
Finance lease	44	30	13	1	–
Unconditional purchase obligations[(2)]	*797*	*271*	*263*	*263*	–
Other obligations:	*68,782*	*50,247*	*13,963*	*683*	*3,889*
Derivative financial liabilities[(3)]:	4,241	–	1,735	674	1,832
Long-term currency swap	4,241	–	1,735	674	1,832
Various trade and other obligations:	64,541	50,247	12,228	9	2,057
Suppliers and contractors	32,997	20,957	12,040	–	–
Utilities and related expenses	16,477	16,446	10	3	18
Employee benefits	3,853	3,853	–	–	–
Customers' deposits	2,223	–	178	6	2,039
Dividends	2,086	2,086	–	–	–
Carriers	1,866	1,866	–	–	–
Others	5,039	5,039	–	–	–
Total contractual obligations	**190,976**	**61,470**	**67,244**	**35,872**	**26,390**

[(1)] *Consists of long-term debt, including current portion, and notes payable; 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.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Within one year	**5,238**	4,469
After one year but not more than five years	**2,658**	2,528
More than five years	**1,183**	962
	9,079	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 Php629 million and Php797 million as at September 30, 2011 and December 31, 2010, respectively.

Other Obligations – Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php62,806 million and Php64,541 million as at September 30, 2011 and December 31, 2010, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php689 million and Php1,145 million as at September 30, 2011 and December 31, 2010, respectively. These commitments will expire within one year.

Foreign Currency Exchange Risk

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at September 30, 2011 and December 31, 2010:

	2011		2010	
	(Unaudited)		(Audited)	
	U.S. Dollar	**Php[(1)]**	U.S. Dollar	Php[(2)]
	(in millions)			
Noncurrent Financial Assets				
Advances and refundable deposits	**1**	**58**	3	122
Derivative financial assets	**–**	**–**	4	178
Total noncurrent financial assets	**1**	**58**	7	300
Current Financial Assets				
Cash and cash equivalents	**152**	**6,671**	138	6,050
Short-term investments	**12**	**541**	15	652
Trade and other receivables – net	**214**	**9,376**	214	9,361
Derivative financial assets	**5**	**233**	–	5
Total current financial assets	**383**	**16,821**	367	16,068
Total Financial Assets	**384**	**16,879**	374	16,368
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**570**	**24,985**	782	34,244
Derivative financial liabilities	**40**	**1,759**	82	3,604
Total noncurrent financial liabilities	**610**	**26,744**	864	37,848
Current Financial Liabilities				
Accounts payable	**122**	**5,355**	169	7,415
Accrued expenses and other current liabilities	**100**	**4,402**	143	6,267
Derivative financial liabilities	**20**	**857**	–	–
Current portion of interest-bearing financial liabilities	**259**	**11,322**	103	4,537
Total current financial liabilities	**501**	**21,936**	415	18,219
Total Financial Liabilities	**1,111**	**48,680**	1,279	56,067

(1) The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.80 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at September 30, 2011.
(2) The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

As at November 2, 2011, the Philippine peso-U.S. dollar exchange rate was Php42.85 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine peso terms by Php691 million as at September 30, 2011.

Approximately 40% and 43% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at September 30, 2011 and December 31, 2010, respectively. Consolidated foreign currency-denominated debt decreased to Php36,020 million as at September 30, 2011 from Php38,414 million as at December 31, 2010. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only currency swap contracts were US$262 million as at September 30, 2011 and December 31, 2010. Consequently, the unhedged portion of our consolidated debt amounts was approximately 27% (or 19%, net of our consolidated U.S. dollar cash balances) and 30% (or 23%, net of our consolidated U.S. dollar cash balances) as at September 30, 2011 and December 31, 2010, respectively.

Approximately 25.8% and 26.2% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the nine months ended September 30, 2011 and 2010, respectively. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 0.02% against the U.S. dollar to Php43.80 to US$1.00 as at September 30, 2011 from Php43.81 to US$1.00 as at December 31, 2010. As at September 30, 2010, the Philippine peso had appreciated by 5.39% against the U.S. dollar to Php43.92 to US$1.00 from Php46.43 to US$1.00 as at December 31, 2009. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php106 million and Php1,667 million for the nine months ended September 30, 2011 and 2010, respectively. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until our next reporting date of December 31, 2011. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 1.14% as compared to the exchange rate of Php43.80 to US$1.00 as at September 30, 2011. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 1.14% as at September 30, 2011, with all other variables held constant, profit after tax for the nine months ended September 30, 2011 would have been approximately Php175 million higher/lower and our consolidated stockholders' equity as at September 30, 2011 would have been approximately Php168 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 September 30, 2011 and December 31, 2010. Financial instruments that are not subject to interest rate risk were not included in the table.

As at September 30, 2011 (Unaudited)

	In U.S. Dollar							Discount/ Debt Issuance	Carrying	Fair Value	
	Below 1 year	**1-2 years**	**2-3 years**	**3-5 years**	**Over 5 years**	**Total**	**In Php**	**Cost In Php**	**Value In Php**	**In U.S. Dollar**	**In Php**
									(in millions)		
Assets:											
Investment in Debt Securities											
Philippine Peso	–	11	–	–	–	11	501	–	501	12	519
Interest rate	–	6.9200%	–	–	–	–	–	–	–	–	–
Cash in Bank											
U.S. Dollar	11	–	–	–	–	11	477	–	477	11	477
Interest rate	0.0100% to 0.7663%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	32	–	–	–	–	32	1,398	–	1,398	32	1,398
Interest rate	0.1000% to 3.1994%	–	–	–	–	–	–	–	–	–	–
Other Currencies	6	–	–	–	–	6	291	–	291	6	291
Interest rate	0.0100% to 2.0000%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
U.S. Dollar	123	–	–	–	–	123	5,374	–	5,374	123	5,374
Interest rate	0.1250% to 1.6400%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	560	–	–	–	–	560	24,520	–	24,520	560	24,520
Interest rate	1.0000% to 4.8750%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
U.S. Dollar	12	–	–	–	–	12	542	–	542	12	542
Interest rate	1.0580% to 1.5000%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	1	–	–	–	–	1	17	–	17	1	17
Interest rate	3.5000%	–	–	–	–	–	–	–	–	–	–
	745	**11**	**–**	**–**	**–**	**756**	**33,120**	**–**	**33,120**	**757**	**33,138**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	146	–	–	–	234	380	16,646	144	16,502	419	18,377
Interest rate	11.3750%	–	–	–	8.3500%	–	–	–	–	–	–
U.S. Dollar Fixed Loans	–	30	293	10	–	333	14,548	2,069	12,479	276	12,075
Interest rate	–	2.9900% to 3.7900%	2.2500% to 3.7900%	2.9900%	–	–	–	–	–	–	–
Philippine Peso	121	27	232	513	158	1,051	46,065	45	46,020	1,131	49,553
Interest rate	5.6250% to 6.5708%	6.5000% to 8.4346%	6.5000% to 9.1038%	5.8308% to 9.1038%	6.5000% to 9.1038%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	–	122	15	–	–	137	6,019	75	5,944	136	5,943
Interest rate	–	US$ LIBOR + 0.4200% to 1.8500%	US$ LIBOR + 1.3500% to 1.8500%	–	–	–	–	–	–	–	–
Philippine Peso	5	148	41	4	–	198	8,666	3	8,663	198	8,663
Interest rate	PDST-F + 0.3000% to 1.3750%	Php PDST-F + 0.3000%	Php PDST-F + 0.3000%	Php PDST-F + 0.3000%	–	–	–	–	–	–	–
Short-term Debt											
Notes Payable											
U.S. Dollar	25	–	–	–	–	25	1,095	–	1,095	25	1,095
Interest rate	Bank's prime rate	–	–	–	–	–	–	–	–	–	–
	297	**327**	**581**	**527**	**392**	**2,124**	**93,039**	**2,336**	**90,703**	**2,185**	**95,706**

As at December 31, 2010 (Audited)

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Investment in Debt Securities											
Philippine Peso	–	–	8	3	–	11	484	–	484	11	502
Interest rate	–	–	6.8750%	7.0000%	–	–	–	–	–	–	–
Cash in Bank											
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%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
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%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
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%	–	–	–	–	–	–	–	–	–	–
	831	**–**	**8**	**3**	**–**	**842**	**36,879**	**–**	**36,879**	**842**	**36,897**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	–	146	–	–	234	380	16,650	200	16,450	440	19,274
Interest rate	–	11.3750%	–	–	8.3500%	–	–	–	–	–	–
U.S. Dollar Fixed Loans	9	29	15	295	–	348	15,264	2,586	12,678	276	12,120
Interest rate	4.7000%	2.9900% to 3.7900%	2.9900% to 3.7900%	2.2500% to 2.9900%	–	–	–	–	–	–	–
Philippine Peso	68	146	121	339	195	869	38,066	74	37,992	961	42,091
Interest rate	6.0323% to 8.7792%	5.6250% to 8.4346%	6.5000% to 8.4346%	6.5000% to 9.1038%	6.5000% to 9.1038%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	6	148	45	15	–	214	9,357	71	9,286	212	9,286
Interest rate	US$ 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%	–	–	–	–	–	–	–
Philippine Peso	58	150	74	20	–	302	13,253	13	13,240	302	13,240
Interest rate	PDST-F + 0.3000% to 1.2500%	PDST-F + 0.3000% to 1.3750%; AUB's prime rate	PDST-F + 0.3000%	PDST-F + 0.3000%	–	–	–	–	–	–	–
	141	**619**	**255**	**669**	**429**	**2,113**	**92,590**	**2,944**	**89,646**	**2,191**	**96,011**

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 interest rates will remain unchanged while Philippine peso interest rates may move 70 basis points higher/lower as compared to levels as at September 30, 2011. If Philippine peso interest rates had been 70 basis points higher/lower as compared to market levels as at September 30, 2011, with all other variables held constant, profit after tax for the nine months ended September 30, 2011 and our consolidated stockholders' equity as at September 30, 2011 would have been approximately Php235 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at September 30, 2011 and December 31, 2010:

	Gross Maximum Exposure[(1)]		Net Maximum Exposure[(2)]	
	2011	2010	**2011**	2010
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	(in million pesos)			
Loans and receivables:				
Advances and refundable deposits	**946**	1,000	**935**	999
Cash and cash equivalents	**32,716**	36,678	**32,104**	36,458
Short-term investments	**37**	152	**37**	152
Foreign administrations	**5,156**	4,321	**4,967**	4,277
Corporate subscribers	**2,994**	2,042	**2,833**	1,918
Retail subscribers	**2,592**	3,872	**2,544**	3,799
Domestic carriers	**1,324**	1,453	**1,324**	1,453
Dealers, agents and others	**3,729**	4,740	**3,654**	4,740
HTM investments:				
Investment in debt securities	**501**	484	**501**	484
Available-for-sale financial assets	**150**	147	**150**	147
Financial instruments at FVPL:				
Short-term investments	**522**	517	**522**	517
Long-term currency swap	**226**	178	**226**	178
Bifurcated embedded derivatives	**–**	5	**–**	5
Derivatives used for hedging:				
Forward foreign exchange contracts	**7**	–	**7**	–
Total	**50,900**	55,589	**49,804**	55,127

[(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.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at September 30, 2011 and December 31, 2010:

	Total	Neither past due nor impaired Class A[(1)]	Class B[(2)]	Past due but not impaired	Impaired
	(in million pesos)				
September 30, 2011 (Unaudited)					
Loans and receivables:					
Advances and refundable deposits	946	916	30	–	–
Cash and cash equivalents	32,716	31,828	888	–	–
Short-term investments	37	37	–	–	–
Corporate subscribers	8,667	1,089	549	1,356	5,673
Retail subscribers	8,484	801	655	1,136	5,892
Foreign administrations	5,335	2,259	913	1,984	179
Domestic carriers	1,456	222	11	1,091	132
Dealers, agents and others	4,264	1,962	1,166	601	535
HTM investments:					
Investment in debt securities	501	501	–	–	–
Available-for-sale financial assets	150	109	41	–	–
Financial instruments at FVPL[(3)]:					
Short-term investments	522	522	–	–	–
Long-term currency swap	226	226	–	–	–
Derivatives used for hedging:					
Forward foreign exchange contracts	7	7	–	–	–
Total	**63,311**	**40,479**	**4,253**	**6,168**	**12,411**
December 31, 2010 (Audited)					
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
HTM investments:					
Investment in debt securities	484	484	–	–	–
Available-for-sale financial assets	147	108	39	–	–
Financial instruments at FVPL[(3)]:					
Short-term investments	517	517	–	–	–
Long-term currency swap	178	178	–	–	–
Bifurcated embedded derivatives	5	5	–	–	–
Total	**67,419**	**43,648**	**5,671**	**6,270**	**11,830**

(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.

The aging analysis of past due but not impaired class of financial assets as at September 30, 2011 and December 31, 2010 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired 1-60 days	61-90 days	Over 91 days	Impaired
			(in million pesos)			
September 30, 2011 (Unaudited)						
Loans and receivables:						
Advances and refundable deposits	946	946	–	–	–	–
Cash and cash equivalents	32,716	32,716	–	–	–	–
Short-term investments	37	37	–	–	–	–
Corporate subscribers	8,667	1,638	762	206	388	5,673
Retail subscribers	8,484	1,456	972	108	56	5,892
Foreign administrations	5,335	3,172	747	398	839	179
Domestic carriers	1,456	233	97	133	861	132
Dealers, agents and others	4,264	3,128	188	342	71	535
HTM investments:						
Investment in debt securities	501	501	–	–	–	–
Available-for-sale financial assets	150	150	–	–	–	–
Financial instruments at FVPL:						
Short-term investments	522	522	–	–	–	–
Long-term currency swap	226	226	–	–	–	–
Derivatives used for hedging:						
Forward foreign exchange contracts	7	7	–	–	–	–
Total	**63,311**	**44,732**	**2,766**	**1,187**	**2,215**	**12,411**
December 31, 2010 (Audited)						
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
HTM investments:						
Investment in debt securities	484	484	–	–	–	–
Available-for-sale financial assets	147	147	–	–	–	–
Financial instruments at FVPL:						
Short-term investments	517	517	–	–	–	–
Long-term currency swap	178	178	–	–	–	–
Bifurcated embedded derivatives	5	5	–	–	–	–
Total	**67,419**	**49,319**	**2,831**	**904**	**2,535**	**11,830**

Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core earnings per share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We had acquired at 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 September 30, 2011 and December 31, 2010. See *Note 8 – Earnings Per Common Share* and *Note 19 – Equity*.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at September 30, 2011 and December 31, 2010:

	2011	2010
	(Unaudited)	(Audited)
	(in million pesos)	
Long-term debt, including current portion (Note 20)	**89,608**	89,646
Notes payable (Note 20)	**1,095**	–
Total consolidated debt	**90,703**	89,646
Cash and cash equivalents (Note 15)	**(32,716)**	(36,678)
Short-term investments	**(559)**	(669)
Net consolidated debt	**57,428**	52,299
Equity attributable to equity holders of PLDT	**85,994**	97,069
Net consolidated debt to equity ratio	**67%**	54%

28. Cash Flow Information

The table below shows non-cash investing activities for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(Unaudited)	
	(in million pesos)	
Recognition of asset retirement obligations (Note 21)	**18**	40
Transfer of Meralco shares to Beacon (Note 10)	**–**	15,083