



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

**AS AT JUNE 30, 2013 (UNAUDITED),
DECEMBER 31, 2012 AND JANUARY 1, 2012 (AS ADJUSTED)
AND FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in million pesos)

	As at June 30, 2013	As at December 31, 2012	As at January 1, 2012
	(Unaudited)	(As Adjusted*)	
ASSETS			
Noncurrent Assets			
Property, plant and equipment (Notes 3, 5, 9, 12 and 20)	189,164	200,078	200,142
Investments in associates and joint ventures and deposit (Notes 3, 4, 5, 10 and 24)	32,893	27,077	17,865
Available-for-sale financial investments (Notes 6, 10 and 27)	5,693	5,651	7,181
Investment in debt securities and other long-term investments – net of current portion (Notes 11 and 27)	673	205	150
Investment properties (Notes 3, 6, 9 and 12)	712	712	1,115
Goodwill and intangible assets (Notes 3, 4, 5 and 14)	74,356	74,250	83,303
Deferred income tax assets – net (Notes 3, 4 and 7)	7,672	7,225	5,117
Derivative financial assets (Note 27)	38	–	–
Prepayments – net of current portion (Notes 3, 5, 18, 24 and 25)	5,733	4,500	11,697
Advances and other noncurrent assets – net of current portion (Note 27)	1,819	1,376	1,340
Total Noncurrent Assets	318,753	321,074	327,910
Current Assets			
Cash and cash equivalents (Notes 15 and 27)	40,133	37,161	46,057
Short-term investments (Note 27)	3,385	574	558
Trade and other receivables (Notes 3, 5, 16, 24 and 27)	17,234	16,379	16,245
Inventories and supplies (Notes 3, 4, 5 and 17)	2,801	3,467	3,827
Current portion of investment in debt securities and other long-term investments (Notes 11 and 27)	91	150	358
Current portion of prepayments (Note 18)	4,868	5,144	6,345
Current portion of advances and other noncurrent assets (Notes 19, 27 and 28)	7,991	8,116	492
	76,503	70,991	73,882
Assets classified as held-for-sale (Notes 2, 3, 4 and 10)	355	13,750	–
Total Current Assets	76,858	84,741	73,882
TOTAL ASSETS	395,611	405,815	401,792
EQUITY AND LIABILITIES			
Equity			
Non-voting serial preferred stock (Notes 8, 19, 27 and 28)	360	360	4,419
Voting preferred stock (Note 19)	150	150	–
Common stock (Notes 8, 19, 27 and 28)	1,093	1,093	1,085
Treasury stock (Notes 8, 19 and 27)	(6,505)	(6,505)	(6,505)
Capital in excess of par value	130,564	130,566	127,246
Retained earnings (Note 19)	20,894	25,416	26,160
Other comprehensive income (Note 6)	(2,956)	(3,387)	1,456
Reserves of a disposal group classified as held-for-sale (Note 2)	–	(2,143)	–
Total Equity Attributable to Equity Holders of PLDT (Note 27)	143,600	145,550	153,861
Noncontrolling interests (Note 6)	186	184	386
TOTAL EQUITY	143,786	145,734	154,247

* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and January 1, 2012, and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
(in million pesos)

	As at June 30, 2013	As at December 31, 2012	As at January 1, 2012
	(Unaudited)	(As Adjusted*)	
Noncurrent Liabilities			
Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23 and 27)	87,271	102,821	91,280
Deferred income tax liabilities – net (Notes 3, 4 and 7)	4,542	5,713	7,078
Derivative financial liabilities (Note 27)	2,114	2,802	2,235
Customers' deposits (Note 27)	2,550	2,529	2,272
Pension and other employee benefits (Notes 3, 5, 23 and 25)	2,797	1,982	551
Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 21, 23, 27 and 28)	19,201	21,950	22,642
Total Noncurrent Liabilities	118,475	137,797	126,058
Current Liabilities			
Accounts payable (Notes 22, 24, 26 and 27)	25,801	30,451	29,554
Accrued expenses and other current liabilities (Notes 3, 10, 14, 19, 20, 21, 23, 24, 25, 26, 27 and 28)	71,124	71,624	58,271
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23 and 27)	30,639	12,989	26,009
Provision for claims and assessments (Notes 3 and 26)	1,555	1,555	1,555
Dividends payable (Notes 19 and 27)	899	827	2,583
Derivative financial liabilities (Note 27)	554	418	924
Income tax payable (Note 7)	2,778	1,809	2,591
Total Current Liabilities	133,350	119,673	121,487
Liabilities directly associated with assets classified as held-for-sale (Notes 2 and 4)	–	2,611	–
Total Current Liabilities	133,350	122,284	121,487
TOTAL LIABILITIES	251,825	260,081	247,545
TOTAL EQUITY AND LIABILITIES	395,611	405,815	401,792

* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and January 1, 2012, and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
For the Six Months Ended June 30, 2013 and 2012
(in million pesos, except earnings per common share amounts)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)	(As Adjusted*)	(Unaudited)	(As Adjusted*)
REVENUES				
Service revenues (Notes 2, 3 and 4)	81,135	79,729	41,167	39,699
Non-service revenues (Notes 3, 4 and 5)	1,964	1,507	972	711
	83,099	81,236	42,139	40,410
EXPENSES				
Depreciation and amortization (Notes 3, 4 and 9)	14,532	15,289	7,304	7,940
Compensation and employee benefits (Notes 3, 5 and 25)	10,999	11,347	5,175	6,569
Repairs and maintenance (Notes 12, 17 and 24)	6,534	6,407	3,233	3,218
Cost of sales (Notes 5, 17 and 24)	5,538	4,483	3,127	1,875
Interconnection costs (Note 2)	5,454	5,559	2,877	2,656
Selling and promotions (Note 24)	4,285	4,313	2,363	2,654
Rent (Notes 3, 24 and 27)	2,851	2,718	1,374	1,285
Professional and other contracted services (Note 24)	2,832	2,610	1,429	1,169
Taxes and licenses (Note 26)	1,716	1,866	817	895
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	1,391	1,184	789	563
Communication, training and travel	1,063	1,025	551	522
Insurance and security services (Note 24)	755	707	377	336
Amortization of intangible assets (Notes 3, 4 and 14)	453	712	251	685
Other expenses (Note 24)	800	653	496	282
	59,203	58,873	30,163	30,649
	23,896	22,363	11,976	9,761
OTHER INCOME (EXPENSES)				
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	1,100	1,311	952	1,037
Interest income (Notes 4, 5, 11 and 15)	485	619	189	265
Gains (losses) on derivative financial instruments – net (Notes 4 and 27)	448	(437)	425	(303)
Foreign exchange gains (losses) – net (Notes 4, 9 and 27)	(1,922)	1,606	(2,135)	366
Financing costs – net (Notes 4, 5, 9, 20 and 27)	(3,327)	(3,364)	(1,723)	(1,689)
Other income (Notes 4 and 18)	1,858	3,142	1,123	2,353
	(1,358)	2,877	(1,169)	2,029
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS (Note 4)				
	22,538	25,240	10,807	11,790
PROVISION FOR INCOME TAX (Notes 2, 3, 4 and 7)	4,677	6,235	2,008	2,564
NET INCOME FROM CONTINUING OPERATIONS (Note 4)	17,861	19,005	8,799	9,226
INCOME FROM DISCONTINUED OPERATIONS (Notes 2, 4 and 8)	1,863	246	1,738	65
NET INCOME (Note 4)	19,724	19,251	10,537	9,291
ATTRIBUTABLE TO:				
Equity holders of PLDT (Notes 4 and 8)	19,707	19,282	10,529	9,313
Noncontrolling interests (Notes 4 and 8)	17	(31)	8	(22)
	19,724	19,251	10,537	9,291
Earnings Per Share Attributable to Common Equity Holders of PLDT (Notes 4 and 8)				
Basic	91.09	89.13	48.67	43.05
Diluted	91.09	89.13	48.67	43.05
Earnings Per Share for Continuing Operations Attributable to Common Equity Holders of PLDT (Note 8)				
Basic	82.47	88.00	40.63	42.76
Diluted	82.47	88.00	40.63	42.76

* Certain amounts shown here do not correspond to the consolidated financial statements for the six months ended June 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2013 and 2012
(in million pesos)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)	(As Adjusted*)	(Unaudited)	(As Adjusted*)
NET INCOME (Note 4)	19,724	19,251	10,537	9,291
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)				
Net gains on available-for-sale financial investments (Note 10):	25	3	7	2
Gains from changes in fair value recognized during the period (Note 10)	27	3	7	2
Income tax related to fair value adjustments charged directly to equity	(2)	–	–	–
Foreign currency translation differences of subsidiaries	786	(551)	780	1
Net transactions on cash flow hedges:	(181)	38	142	6
Net fair value gains (losses) on cash flow hedges (Note 27)	(227)	38	209	6
Income tax related to fair value adjustments charged directly to equity	46	–	(67)	–
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	630	(510)	929	9
Remeasurement gains in actuarial gains on defined benefit obligations	531	–	–	–
Revaluation increment on investment properties (Notes 9 and 12):	(1)	(1)	–	–
Depreciation of revaluation increment in investment property transferred to property, plant and equipment	(1)	(1)	–	–
Net other comprehensive loss reclassified directly to retained earnings in subsequent periods	530	(1)	–	–
Total Other Comprehensive Income (Loss) – Net of Tax	1,160	(511)	929	9
TOTAL COMPREHENSIVE INCOME	20,884	18,740	11,466	9,300
ATTRIBUTABLE TO:				
Equity holders of PLDT	20,873	18,771	11,461	9,322
Noncontrolling interests	11	(31)	5	(22)
	20,884	18,740	11,466	9,300

* Certain amounts shown here do not correspond to the consolidated financial statements for the six months ended June 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Six Months Ended June 30, 2013 and 2012
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Reserves of a Disposal Group Classified as Held-for-Sale	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2013, as previously presented	510	1,093	(6,505)	130,566	24,794	790	(2,188)	149,060	182	149,242
Effect of changes in accounting policies for employee benefits (Note 2)	-	-	-	-	622	(4,177)	45	(3,510)	2	(3,508)
Balances as at January 1, 2013, as adjusted	510	1,093	(6,505)	130,566	25,416	(3,387)	(2,143)	145,550	184	145,734
Total comprehensive income:	-	-	-	-	19,707	1,166	-	20,873	11	20,884
Net income (Notes 4 and 8)	-	-	-	-	19,707	-	-	19,707	17	19,724
Other comprehensive income (Note 6)	-	-	-	-	-	1,166	-	1,166	(6)	1,160
Cash dividends (Note 19)	-	-	-	-	(24,229)	-	-	(24,229)	(2)	(24,231)
Discontinued operations (Notes 2 and 6)	-	-	-	-	-	(735)	2,143	1,408	-	1,408
Acquisition and dilution of noncontrolling interests (Notes 2 and 13)	-	-	-	(2)	-	-	-	(2)	(5)	(7)
Others (Notes 2 and 13)	-	-	-	-	-	-	-	-	(2)	(2)
Balances as at June 30, 2013 (Unaudited)	510	1,093	(6,505)	130,564	20,894	(2,956)	-	143,600	186	143,786
Balances as at January 1, 2012, as previously presented	4,419	1,085	(6,505)	127,246	26,232	(644)	-	151,833	386	152,219
Effect of changes in accounting policies for employee benefits (Note 2)	-	-	-	-	(72)	2,100	-	2,028	-	2,028
Balances as at January 1, 2012, as adjusted	4,419	1,085	(6,505)	127,246	26,160	1,456	-	153,861	386	154,247
Total comprehensive income:	-	-	-	-	19,282	(511)	-	18,771	(31)	18,740
Net income (Notes 4 and 8)	-	-	-	-	19,282	-	-	19,282	(31)	19,251
Other comprehensive loss (Note 6)	-	-	-	-	-	(511)	-	(511)	-	(511)
Cash dividends (Note 19)	-	-	-	-	(24,007)	-	-	(24,007)	-	(24,007)
Issuance of capital stock – net of conversion (Note 19)	(30)	8	-	4,423	-	-	-	4,401	-	4,401
Redemption of preferred shares (Note 19)	(4,029)	-	-	-	-	-	-	(4,029)	-	(4,029)
Others (Note 2)	-	-	-	(1,073)	-	-	-	(1,073)	(148)	(1,221)
Balances as at June 30, 2012 (As Adjusted*)	360	1,093	(6,505)	130,596	21,435	945	-	147,924	207	148,131

* Certain amounts shown here do not correspond to the consolidated financial statements for the six months ended June 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2013 and 2012
(in million pesos)

	2013	2012
	(Unaudited)	(As Adjusted*)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax and noncontrolling interest from continuing operations	22,538	25,240
Income before income tax and noncontrolling interest from discontinued operations (Note 2)	1,918	427
Income before income tax (Note 4)	24,456	25,667
Adjustments for:		
Depreciation and amortization (Notes 3, 4 and 9)	14,685	15,524
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)	2,350	2,674
Foreign exchange losses (gains) – net (Notes 4, 9 and 27)	1,918	(1,565)
Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)	1,393	1,185
Incentive plans (Notes 3, 5 and 25)	851	802
Accretion on financial liabilities – net (Notes 5, 20 and 27)	697	546
Pension benefit costs (Notes 3, 5 and 25)	592	360
Amortization of intangible assets (Notes 3 and 14)	508	785
Losses (gains) on disposal of property, plant and equipment (Note 9)	86	(65)
Losses (gains) on derivative financial instruments – net (Notes 4 and 27)	(449)	403
Interest income (Notes 4, 5 and 15)	(488)	(626)
Equity share in net earnings of associates and joint ventures (Notes 4 and 10)	(963)	(1,311)
Gain on disposal of investment available-for-sale	(2,198)	–
Others	(1,361)	(2,458)
Operating income before changes in assets and liabilities	42,077	41,921
Decrease (increase) in:		
Trade and other receivables	60	(1,671)
Inventories and supplies	752	837
Prepayments	86	81
Advances and other noncurrent assets	88	(25)
Increase (decrease) in:		
Accounts payable	(4,855)	(3,943)
Accrued expenses and other current liabilities	609	4,272
Pension and other employee benefits	(2,185)	(245)
Customers' deposits	21	(3)
Other noncurrent liabilities	(26)	(222)
Net cash flows generated from operations	36,627	41,002
Income taxes paid	(4,829)	(5,082)
Net cash flows from operating activities	31,798	35,920
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	535	646
Dividends received (Note 10)	431	225
Proceeds from:		
Disposal of investments	13,035	–
Sale of net assets held-for-sale	1,015	–
Maturity of investment in debt securities	150	–
Disposal of property, plant and equipment (Note 9)	80	116
Disposal of available-for-sale investments	–	3,567
Payments for:		
Purchase of investments available-for-sale	(15)	(4)
Acquisition of intangibles (Note 4)	(100)	–
Purchase of investment in debt securities	(546)	–
Purchase of investments in associates and joint ventures (Note 10)	(1,644)	(2,813)
Deposit for future PDRs subscription (Note 10)	(2,600)	–
Purchase of short-term investments	(2,793)	(64)
Additional investment in subsidiaries (Note 13)	–	(4,813)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27)	(303)	(476)
Cash from deconsolidated subsidiaries –		
net of payment for purchase of investment in subsidiaries	(1,170)	–
Additions to property, plant and equipment (Notes 4 and 9)	(4,484)	(8,822)
Decrease in advances and other noncurrent assets	(438)	(47)
Net cash flows provided by (used in) investing activities	1,153	(12,485)

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PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Six Months Ended June 30, 2013 and 2012
(in million pesos)**

	2013	2012
	(Unaudited)	(As Adjusted*)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availments of long-term debt (Note 20)	16,722	27,090
Availments of long-term financing for capital expenditures	2,236	2,133
Notes payable (Note 20)	-	557
Payments for:		
Redemption of shares	(4)	-
Obligations under finance leases	(5)	(5)
Debt issuance costs (Note 20)	(112)	(58)
Derivative financial instruments (Note 27)	(187)	(693)
Interest – net of capitalized portion (Notes 5, 20 and 27)	(2,509)	(2,764)
Long-term financing for capital expenditures	(5,474)	(5,053)
Long-term debt (Note 20)	(18,066)	(26,882)
Cash dividends (Note 19)	(24,153)	(23,935)
Redemption of liabilities	-	(202)
Notes payable (Note 20)	-	(2,173)
Trust fund for redemption of shares (Note 19)	-	(5,647)
Net cash flows used in financing activities	(31,552)	(37,632)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	438	(248)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,837	(14,445)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	38,296	46,057
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	40,133	31,612
Continuing operations	40,133	30,435
Discontinued operations (Note 2)	-	1,177

* Certain amounts shown here do not correspond to the consolidated financial statements for the six months ended June 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., 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 20% of PLDT's outstanding common stock as at June 30, 2013. 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 represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at June 30, 2013. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at June 30, 2013, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or BTF, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at June 30, 2013. See *Note 19 – Equity – Voting Preferred Stock* and *Note 26 – Provisions and Contingencies – Matters Relating to Gamboa Case*.

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 are approximately 44 million ADSs outstanding as at June 30, 2013.

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 business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements as at and for the six months ended June 20, 2013 have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, available-for-sale financial investments and investment properties that have been measured at fair values.

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 six months ended June 30, 2013 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 consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at June 30, 2013:

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 Subsidiary	Philippines	Internet broadband distribution services	–	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	–	100.0
I-Contacts Corporation	Philippines	Call center services	–	100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services	–	100.0
Wireless Card, Inc.	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
Far East Capital Limited and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	–	100.0
PH Communications Holdings Corporation	Philippines	Investment company	–	100.0
Francom Holdings, Inc.:	Philippines	Investment company	–	100.0
Connectivity Unlimited Resource Enterprise, 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
Smarthub Pte. Ltd., or SHPL:	Singapore	Investment company	–	100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	–	100.0
3 rd Brand Pte. Ltd., or 3 rd Brand	Singapore	Solutions and systems integration services	–	85.0
Voyager Innovations, Inc., or Voyager ^(a)	Philippines	Mobile applications development and services	–	100.0
Telesat, Inc. ^(a)	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 Investment Corporation (formerly Mabuhay Satellite Corporation), or MIC ^(a)	Philippines	Investment company	67.0	–
Digitel Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digitel	Philippines	Cellular mobile services	–	99.5

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership	
			Direct	Indirect
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	British Virgin Islands	Telecommunications services	100.0	–
Smart-NTT Multimedia, Inc. ^(a)	Philippines	Data and network services	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	–
ePLDT, Inc., or ePLDT ^(b)	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	100.0	–
IP Converge Data Services, Inc., or IPCDSI ^(c)	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	–	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group ^(d)	Philippines	Internet-based purchasing, IT consulting and professional services	–	99.2
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0
netGames, Inc., or netGames ^(e)	Philippines	Gaming support services	–	57.5
Digitel	Philippines	Telecommunications services	99.5	–
Digitel Capital Philippines Ltd., or DCPL ^(f)	British Virgin Islands	Telecommunications services	–	99.5
Digitel Information Technology Services, Inc. ^(g)	Philippines	Internet services	–	99.5
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.9	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0	–
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	International distributor of Filipino channels and content	60.0	–
Others				
PLDT Global Investments Holdings, Inc., or PGIH (formerly SPI Global Holdings, Inc.) ^(h)	Philippines	Investment company	100.0	–
SPI Global Investments Limited, or SGIL	British Virgin Islands	Investment company	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	–	99.8

^(a) On January 7, 2013, Voyager was incorporated in the Philippines to provide mobile applications development and services.

^(b) Ceased commercial operations.

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

^(d) On June 11, 2012, MySecureSign, Inc., or MSSSI, and ePLDT were merged, wherein ePLDT became the surviving company.

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

^(f) In January 2013, ePLDT acquired an additional 2% equity interest in AGS from its minority shareholders for a consideration of Php2 million, thereby increasing ePLDT's ownership in AGS from 97.1% to 99.2%.

^(g) Ceased commercial operations in January 2013.

^(h) Liquidated in January 2013.

⁽ⁱ⁾ Corporate life shortened until June 2013.

^(j) On June 3, 2013, the Philippine SEC approved the change in the name of SPI Global Holdings, Inc. to PLDT Global Investments Holdings, Inc.

^(k) On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The sale of the BPO segment was completed on April 30, 2013. See – Discontinued Operations and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Discontinued Operations.

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. We control an investee when we are exposed, or has rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

PCEV's Common Stock

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

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

	Prior to Amendments			After Amendments		
	Authorized Capital	Number of Shares	Par Value	Authorized Capital	Number of Shares	Par Value
Common Stock	Php12,060,000,000	12,060,000,000	Php1	Php12,060,006,000	574,286	Php21,000
Class I Preferred Stock	240,000,000	120,000,000	2	66,661,000	33,330,500	2
Class II Preferred Stock	500,000,000	500,000,000	1	50,000,000	50,000,000	1
Total Authorized Capital Stock	Php12,800,000,000			Php12,176,667,000		

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

Consequently, from October 8, 2012, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 127 as at June 30, 2013 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at June 30, 2013.

Divestment of CURE

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

- CURE must sell its Red Mobile business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

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

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

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

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at June 30, 2013 and December 31, 2012, but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

Corporate Merger of MSSSI and ePLDT

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

ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSI and advances to IPCDSI for a total adjusted purchase price of Php693 million. See *Note 13 – Business Combinations – ePLDT's Acquisition of IPCDSI*.

ePLDT's Acquisition of Shares of AGS' Minority Stockholders

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

Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and should the negotiations with a potential buyer not lead to a sale, we expect to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the six months ended June 30, 2012 to present the results of operations of our BPO business as discontinued operations. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations*.

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, SPi Global, to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US\$40 million of the proceeds from the sale in Asia Outsourcing Beta Limited, or Beta, resulting in an approximately 19.7% interest, and will continue to participate in the growth of the business as a partner of CVC. Upon the completion of the sale, PLDT will be subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT's business); and (2) an obligation, for a period of five years, to provide transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided). In addition, PLDT may be liable for certain damages actually suffered by AOGL arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a wholly-owned subsidiary of SPi.

The results of the BPO segment, net of intercompany transactions, classified as discontinued operations for the four months ended April 30, 2013 (closing period of the sale) and for the six months ended June 30, 2012 are as follows:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Revenues (Notes 3 and 4)	3,132	4,504
Expenses:		
Compensation and employee benefits (Notes 3, 5 and 25)	2,047	2,801
Professional and other contracted services (Note 24)	450	276
Depreciation and amortization (Notes 3 and 9)	153	235
Repairs and maintenance (Notes 12, 17 and 24)	129	191
Communication, training and travel	118	171
Rent (Notes 3 and 27)	86	143
Amortization of intangible assets (Notes 3 and 14)	55	73
Selling and promotions	27	40
Insurance and security services (Note 24)	21	30
Taxes and licenses (Note 26)	14	39
Other expenses (Note 24)	57	58
	3,157	4,057
	(25)	447
Other income (expenses):		
Foreign exchange gains (losses) – net (Notes 9 and 27)	4	(41)
Interest income (Notes 5, 11 and 15)	3	7
Gains on derivative financial instruments – net	1	34
Financing costs (Notes 5, 9, 20 and 27)	(4)	(13)
Equity in net losses of subsidiaries	(137)	–
Other income (loss) (Note 18)	2,076	(7)
	1,943	(20)
Income before income tax from discontinued operations	1,918	427
Provision for income tax (Notes 2, 3 and 7)	55	181
Income after tax from discontinued operations (Note 4)	1,863	246
Earnings per share (Note 8):		
Basic – income from discontinued operations	8.62	1.13
Diluted – income from discontinued operations	8.62	1.13

As indicated above, the sale of BPO segment was completed on April 30, 2013. Thus, our consolidated financial statements do not include any assets and liabilities of the BPO segment as at June 30, 2013. On the other hand, below are the major classes of assets and liabilities of BPO segment, net of intercompany transactions, classified as held-for-sale as at December 31, 2012:

	2012
	(As Adjusted*)
	(in million pesos)
Assets:	
Property, plant and equipment (Notes 3 and 9)	1,529
Available-for-sale financial investments (Notes 6 and 10)	2
Goodwill and intangible assets (Notes 3 and 14)	7,033
Deferred income tax assets – net (Note 7)	212
Prepayments – net of current portion	9
Advances and other noncurrent assets – net of current portion	117
Cash and cash equivalents	1,135
Trade and other receivables (Note 16)	2,704
Derivative financial assets (Note 27)	68
Current portion of prepayments	296
Current portion of advances and other noncurrent assets	7
Assets classified as held-for-sale	13,112
Liabilities:	
Interest-bearing financial liabilities – net of current portion (Note 20)	425
Deferred income tax liabilities – net (Note 7)	147
Pension and other employee benefits (Notes 3 and 25)	221
Accounts payable	481
Accrued expenses and other current liabilities	885
Current portion of interest-bearing financial liabilities (Note 20)	278
Dividends payable	6
Derivative financial liabilities (Note 27)	7
Income tax payable	161
Liabilities directly associated with assets classified as held-for-sale	2,611
Net assets directly associated with disposal group	10,501
Included in other comprehensive income:	
Net transactions on cash flow hedges – net of tax (Note 6)	62
Actuarial gains on defined benefit plans	45
Foreign currency translation differences of subsidiaries (Note 6)	(2,250)
Reserves of a disposal group classified as held-for-sale	(2,143)

* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 2 – Changes in Accounting Policies and Disclosures.

The net cash flows incurred by the BPO segment for the four months ended April 30, 2013 (closing period of sale) and for the six months ended June 30, 2012 are as follows:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Operating activities	144	1,135
Investing activities	5	(176)
Financing activities	(10)	(325)
Net effect of foreign exchange rate changes on cash and cash equivalents	(67)	(31)
Net cash inflow	72	603

PLDT's Acquisition of Subscription Assets of Digitel

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel's subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed. This transaction is in line with the integration of PLDT and Digitel's fixed line businesses primarily to achieve operating efficiencies and to increase the level of quality of service for Digitel's subscribers.

Changes in Accounting Policies and Disclosures

Our accounting policies adopted in the preparation of our consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as at January 1, 2013:

Amendments to PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with *PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or “similar arrangement”, irrespective of whether they are set-off in accordance with *PAS 32*. The amendments affect disclosures only and have no impact on our financial position or performance. The additional disclosure required by the amendments are presented in *Note 27 – Financial Assets and Liabilities*.

PFRS 10, Consolidated Financial Statements. *PFRS 10* replaces the portion of *PAS 27, Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. *PFRS 10* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *PFRS 10* will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in *PAS 27*.

As a result of the adoption of *PFRS 10*, we changed our accounting policy with respect to determining whether we have control over and consequently whether we consolidate our investees. *PAS 10* introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if, and only if, we have: (1) the power over the investee, i.e., the investor has existing rights that give it the ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns; (2) the exposure, or rights, to variable returns from its involvement with the investees; and (3) the ability to use its power over the investee to affect the amount of the investor's returns. More simply put, we must consolidate the investee if we have *de facto* control over such investee.

In accordance with the transitional provisions of *PFRS 10*, we re-assessed the control conclusion for our investees beginning January 1, 2013 and based on the reassessment there were no additional investees that should be consolidated on the basis of the above circumstances and therefore, the adoption of this revised standard has no impact on our financial position or performance.

PFRS 11, Joint Arrangements. *PFRS 11* superseded *PAS 31, Interests in Joint Ventures*, and *SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. *PFRS 11* removes the option to account for jointly controlled entities, or JCEs, using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

As a result of the adoption of *PFRS 11*, we changed our accounting policy with respect to our interest in joint arrangements.

Under *PFRS 11*, we classified our interest in joint arrangements as either joint operations or joint ventures depending on our rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, we consider the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

We re-evaluated our involvement in our joint arrangements and assessed that its classification as joint ventures is in accordance with *PFRS 11* and therefore, the adoption of this revised standard has no impact on our financial position or performance.

PFRS 12, Disclosure of Interests in Other Entities. *PFRS 12* includes all of the disclosures that were previously in *PAS 27* related to consolidated financial statements, as well as all of the disclosures that were previously included in *PAS 31* and *PAS 28, Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of the revised standard has no significant impact on our consolidated financial statements. See also *Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation* and *Note 10 – Investments in Associates and Joint Ventures and Deposit* for a more comprehensive disclosure about our interest in subsidiaries, associates and joint ventures.

PFRS 13, Fair Value Measurement. *PFRS 13* defines fair value, sets out a single PFRS framework for measuring fair value and requires disclosures about fair value measurements. *PFRS 13* does not change when an entity is required to use fair value, rather, it provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

The adoption of this standard has no material impact on our financial position and performance.

Revised PAS 19, Employee Benefits. Amendments to *PAS 19* range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. On January 1, 2013, we adopted the Revised *PAS 19*.

The Revised *PAS 19* requires all actuarial gains and losses under defined benefit plans to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised *PAS 19*, we recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised *PAS 19*, we changed our accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised *PAS 19* replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised *PAS 19* also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised *PAS 19* modified the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The changes in our accounting policies as a result of the adoption of the Revised *PAS 19* have been applied retrospectively.

Consequently, we reviewed our existing employee benefits and determined that the revised standard has significant impact on our accounting for defined benefit retirement plans. We obtained the services of an external actuary to compute the impact on the consolidated financial statements upon adoption of the standard and have increased (decreased) the following accounts in our consolidated financial position as at December 31, 2012 and January 1, 2012 and our consolidated statement of income for the six months ended June 30, 2012:

	As at December 31, 2012	As at January 1, 2012
	(in million pesos)	
Increase (decrease) in:		
Consolidated Statements of Financial Position		
Prepaid benefit costs under prepayments – net of current portion	(6,394)	2,828
Accrued benefit costs under pension and other employee benefits	160	(58)
Accrued benefit costs under liabilities directly associated with assets classified as held-for-sale	(18)	–
Deferred income tax assets – net	1,907	(858)
Other comprehensive income – net of tax	(4,177)	2,100
Reserves of a disposal group classified as held-for-sale	45	–
Retained earnings	622	(72)
Noncontrolling interests	2	–

	For the Six Months Ended June 30, 2012	
	(in million pesos)	
Consolidated Income Statement		
Net benefit costs under pension and other employee benefits	122	
Net benefit income under other income	(95)	
Income tax expense	(64)	
Income after tax from discontinued operations	(58)	
Profit attributable to equity holders of PLDT	(212)	

Our adoption of this standard also affected the recognition of termination benefits, wherein certain cost of manpower rightsizing program, or MRP, accrued based on formal detailed plan on December 31, 2012 was reversed and was recognized in 2013 based on the date of actual acceptance of the employees by signing the acceptance letter. This reduced our consolidated deferred income tax assets – net by Php166 million, accrued expenses and other current liabilities by Php1,287 million and retained earnings by Php1,121 million as at December 31, 2012. A total of Php927 million of MRP cost was recognized for the six months ended June 30, 2013 as a result of this change in the recognition of termination benefits.

The Revised *PAS 19* requires additional disclosure requirements for defined benefit plans. These disclosures, among others, include the following: (a) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation. We are still in the process of collating the additional required disclosures mentioned above and expect to provide such information once available.

Revised PAS 27, Separate Financial Statements. As a consequence of the new *PFRS 10* and *PFRS 12*, *PAS 27* is now limited to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

This revised standard has no impact on our financial position or performance.

Revised PAS 28, Investments in Associates and Joint Ventures. Superseding *PAS 28, Investments in Associates*, is *PAS 28, Investments in Associates and Joint Ventures*, which 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.

This revised standard has no impact on our financial position or performance.

Amendments to PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income. The amendments to *PAS 1* change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that may not be reclassified at any point in time. The amendment solely affects presentation and therefore has no impact on our financial position or performance.

Improvements to PFRS

The annual improvements to PFRS contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and to be applied retrospectively.

PFRS 1, First-time Adoption of International Financial Reporting Standards. The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply *PFRS 1*, even if the entity applied *PFRS 1* in a previous reporting period; or (b) apply PFRS retrospectively in accordance with *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*, in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carryforward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with *PAS 23, Borrowing Costs*. The amendment will have no impact on our financial position or performance.

PAS 1, Presentation of Financial Statements – Clarification of the Requirements for Comparative Information. The amendment requires an entity to present a: (a) comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period; and (b) opening statement of financial position (known as the “third balance sheet”) when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement will be at the beginning of the preceding period. The amendment has no impact on our financial position or performance.

PAS 16, Property, Plant and Equipment – Classification of Servicing Equipment. The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement has no impact on our financial position or performance.

PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments. The amendment removes existing income tax requirements from *PAS 32* and requires entities to apply requirements in *PAS 12, Income Taxes*, to any income tax arising from distributions to equity holders. The amendment has no impact on our financial position or performance.

PAS 34, Interim Financial Reporting and Segment Information for Total Assets and Liabilities. The amendment clarifies the requirements in *PAS 34* relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirement in *PFRS 8, Operating Segments*. The amendment has no impact on our financial position or performance.

In addition to the above-mentioned amendments and new standards, *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards*, was amended with effect for reporting periods starting on or after January 1, 2013.

We are not a first-time adopter of PFRS, therefore, this amendment is not relevant to us.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in 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, Financial Instruments: Recognition and Measurement*, either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured and its 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 aggregate of the consideration transferred, the amount recognized for noncontrolling interest and the acquisition-date fair value of previously held equity interest in the acquiree over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. At measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in Associates

An associate is an entity in which we have significant influence, but no control or joint control, over the financial and operating policies. The existence of significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity. Significant influence is also exemplified when we have: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes transaction costs. The details of our investments in associates are disclosed in *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investments in Associates*.

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 statements: (1) statement of comprehensive income; and (2) statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profits or losses of our associates is shown on the face of our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or has made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

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.

Joint Arrangements

Joint arrangements are arrangements of which we have joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation.
- Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, same as investments in associates.

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 our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investments in Joint Ventures*.

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

Upon loss of joint control and provided that the former joint venture 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 joint venture 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 an 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 our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SHPL, SGP, 3rd Brand, SMHC, SMI, Telecoms Solutions, Inc., or TSI, FECL Group, PLDT Global and its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka and AGS) is the Philippine peso.

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

The functional currency of SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and the functional currency of SHPL, SGP, 3rd Brand, and certain subsidiaries of AGS is the Singapore dollar. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Noncurrent Assets Held-for-sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held-for-sale are neither depreciated nor amortized.

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of PAS 39 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 investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income" for non-derivative financial assets (positive net changes in fair value). 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 different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

Our financial assets at FVPL include portions of short-term investments as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, 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.

Our loans and receivables include trade and other receivables, portions of short-term and long-term investments, and portions of advances and other noncurrent assets as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

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 current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portion of investment in debt securities and other long-term investments as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 11 – Investment in Debt Securities and Other Long-term Investments* and *Note 27 – Financial Assets and Liabilities*.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the available-for-sale reserve account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated income statement. Interest earned on holding available-for-sale financial investments 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 to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

For a financial investment reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of *PAS 39* are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as 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 on liabilities held-for-trading 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 different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only currency swaps, interest rate swaps and an equity forward sale contract as at June 30, 2013 and long-term principal only currency swaps, interest rate swaps and forward foreign exchange contracts as at December 31, 2012 and January 1, 2012. See *Note 27 – Financial Assets and Liabilities*.

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 an integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities, with the exemption of statutory payables, interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 20 – Interest-bearing Financial Liabilities*, *Note 21 – Deferred Credits and Other Noncurrent Liabilities*, *Note 22 – Accounts Payable*, and *Note 23 – Accrued Expenses and Other Current Liabilities*.

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 (bid price for long positions and ask price for short positions), at the close of business at the end of the reporting period without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a 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.

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber.

Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, counterparty’s payment history and industry-observed settlement periods.

Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier’s payment history and industry-observed settlement periods.

Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances regardless of the age of balances.

Collective impairment

Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

Others subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

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 investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investment is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20.0% or more below the original cost of investment, and "prolonged" as greater than 12 months. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income 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 to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost less any impairment loss on that investment previously recognized in our consolidated income statement and the current fair value. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

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

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, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See *Note 27 – Financial Assets and Liabilities*.

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.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, 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 a 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 other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other 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.

We use an equity forward contract to hedge the sale of Philweb shares. See *Note 27 – Financial Assets and Liabilities – ePLDT Group*.

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.

We use a loan as a hedge of its exposure to foreign exchange risk on its investment in foreign subsidiaries. See *Note 27 – Financial Assets and Liabilities* for more details.

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 we expect to 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.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

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. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the asset if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property, plant and equipment.

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

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

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 period the asset is derecognized.

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. 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, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for commercial service.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to our borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period shall not exceed the amount of borrowing costs incurred during that period.

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. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair 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, including the corresponding tax effect. 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 or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or 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 owner occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

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 either finite or indefinite.

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the 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.

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 14 – Goodwill and Intangible Assets*.

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 period 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.

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

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property, plant and equipment

For property, plant and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

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.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to CGUs, or group of CGUs, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

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, which include temporary cash investments, 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.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be sold separately or bundled with goods or other services. The specific recognition criteria are as follows:

Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges generated from postpaid cellular voice and data services through the postpaid plans of *Smart* and *Sun Cellular*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognized on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid services include over-the-air reloading channels and prepaid cards provided by *Smart Prepaid*, *Talk 'N Text* and *Sun Cellular*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, short messaging services, or SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e. free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Nonrecurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

Connecting carriers

Interconnection revenue for call termination, call transit and network usages is recognized in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

Value-Added Services, or VAS

Revenues from VAS include SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), MMS, content downloading and infotext services. The amount of revenue recognized is net of amount settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers.

Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Multiple-deliverable arrangements

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting 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.

Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service is performed.

Service revenues from discontinued operations

Our revenues are principally derived from knowledge processing solutions and customer relationship management services in the business process outsourcing business.

Revenue from outsourcing contracts under our knowledge processing solutions and customer relationship management businesses are recognized when evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable, and collectability is reasonably assured. If the fee is not fixed or determinable, or collectability is not reasonably assured, revenue is not recognized until payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptable 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. Revenue contingent on meeting specific performance conditions are recognized to the extent of costs incurred to provide the service. Outsourcing contracts may also include incentive payments dependent on achieving performance targets. Revenue relating to such incentive payments is recognized when the performance target is achieved.

Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in the consolidated income statements.

Interest income

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

Dividend income

Revenue is recognized when our right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Retirement Benefits

Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimation of Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies 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 present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

Defined contribution plans

Smart and certain of its subsidiaries have a host defined contribution plan under which it recognizes an expense for contribution made to such plan in relation to services rendered by covered employees. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, such excess is recognized as a prepaid asset to the extent that the prepayment will lead to a reduction in future payments. When the expected future value of the plan assets is below the future expected value of the retirement benefits prescribed under Republic Act No. 7641, or R.A. 7641 otherwise known as "The Retirement Pay Law", such deficit is accounted for similar to defined benefit accounting. See *Note 25 – Employee Benefits – Smart's Retirement Plan* for more details.

Other Long-term Employee Benefits

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, and 2012 to 2014 Long-term Incentive Plan, or the revised LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in profit or loss. See *Note 25 – Employee Benefits – Other Long-term Employee Benefits* for more details.

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. The arrangement is assessed for 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 or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current 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.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) receivables and payables that are stated with the amount of VAT included.

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 consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Equity

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

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

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

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

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

New Accounting Standards and Amendments and Interpretations to Existing Standards Effective Subsequent to June 30, 2013

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

Effective 2014

Amendments to PFRS 10, Consolidated Financial Statements – Investment Entities. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. New disclosure requirements relating to investment entities were added in *PFRS 12* and *PAS 27*. The amendments to *PFRS 10* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PFRS 10* on our financial position or performance.

Amendments to PFRS 12, Disclosure of Interests in Other Entities – Investment Entities. The amendments require a parent that is an investment entity to disclose information about significant judgments and assumptions it has made in determining that it is an investment entity, as well as and any changes thereto. A parent that is an investment entity is also required to disclose certain information on unconsolidated subsidiaries, which are accounted for at fair value through profit and loss. The amendments to *PFRS 12* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PFRS 12* on our financial position or performance.

Amendments to PAS 27, Separate Financial Statements – Investment Entities. The amendments require a parent that is an investment entity and does not consolidate its subsidiaries in accordance with the exceptions of *PFRS 10*, to present a separate financial statement as its only financial statement. The amendments to *PAS 27* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PAS 27* on our financial position or performance.

Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. These amendments to *PAS 32* clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on our net assets, any changes in offsetting are expected to impact leverage ratios and regulatory capital requirements. The amendments to *PAS 32* are to be retrospectively applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PAS 32* on our financial position or performance.

Amendments to PAS 36, Recoverable Amount of Disclosures for Non-Financial Assets. The amendments clarify that recoverable amount disclosure only applies to impaired assets or CGU. If the recoverable amount is fair value less costs of disposal, an entity is required to disclose: (1) the level of the fair value hierarchy within which the fair value measurement of the asset is categorized in its entirety; (2) a description of the valuation technique used to measure fair value less costs of disposal or fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; and (3) the discount rate used in the current and previous measurement if fair value less cost of disposal is measured using a present value technique. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which *PFRS 13* is not applied. The amendments affect disclosures only and have no impact on our financial position or performance.

Philippine Interpretation IFRIC 21, Levies. The interpretation clarifies when a liability for a levy should be recognized and is effective for annual periods beginning on or after January 1, 2014. The interpretation has no significant impact on our financial position or performance.

Effective 2015

PFRS 9, Financial Instruments: Classification and Measurement. PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

We have made an evaluation of the impact of the adoption of this standard. We decided not to early adopt PFRS 9 for our 2013 reporting ahead of its effectivity date on January 1, 2015, therefore, the consolidated financial statements as at and for the six months ended June 30, 2013 do not reflect the impact of the said standard.

Only financial assets and liabilities will be affected by the standard and based on this evaluation, loans and receivables (consisting of short-term placements, trade and other receivables, and advances), investment in debt securities and other long-term investments, and financial liabilities (consisting of accounts payable, accrued expenses, customers' deposits, deferred credits, long-term debt, notes payable, obligations under finance leases, and dividends payable), which are carried at amortized cost will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at their amortized cost, thus, will have no significant financial impact to our financial position and performance. For the derivative financial assets and liabilities, we will still carry them at fair value through profit and loss. For our current available-for-sale investments which are composed of equity investments carried at fair value, we plan to classify these items at fair value through other comprehensive income and will continue to measure these investments at fair value with any changes in the remeasurement to be presented in other comprehensive income, thus, this has no significant financial impact to our financial position and performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

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

Judgments

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

Assets held-for-sale and discontinued operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and should the negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the six months ended June 30, 2012 to present the results of operations of our BPO segment as discontinued operations. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. Thus, the investment in Philweb was classified as assets held-for-sale as at June 30, 2013 and December 31, 2012. See *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investment in Philweb* and *Note 27 – Financial Assets and Liabilities – ePLDT Group*.

Classifying HTM investments

The classification of financial assets to HTM investments requires significant judgment. In making this judgment, PLDT Group evaluates its intention and ability to hold such investments to maturity. If PLDT Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of available-for-sale financial investments. The investments would thereafter be measured at fair value and not at amortized cost.

Our investments in certain quoted debt securities are classified as HTM investments. See *Note 11 – Investment in Debt Securities and Other Long-term Investments*.

Determination of functional currency

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

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for, SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka, which use the U.S. dollar. SHPL, SGP, 3rd Brand, and certain subsidiaries of AGS use the Singapore dollar as functional currency.

Leases

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php2,851, million and Php2,718 million for the six months ended June 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php86 million and Php143 million for the six months ended June 30, 2013 and 2012, respectively. Total finance lease obligations from continuing operations amounted to Php15 million, Php18 million and Php14 million as at June 30, 2013, December 31, 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to nil million and Php7 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

Estimates and Assumptions

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

Asset impairment

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

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

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS.

There were no asset impairment recognized on noncurrent assets from continuing and discontinued operations for the six months ended June 30, 2013 and 2012.

The carrying values of our property, plant and equipment, investments in associates and joint ventures and deposit, goodwill and intangible assets, and prepayments are separately disclosed in Notes 9, 10, 14 and 18, respectively.

Estimating useful lives of property, plant and equipment and intangible assets with finite life

We estimate the useful lives of each item of our property, plant and equipment and intangible assets with finite life 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 and intangible assets with finite life 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 and intangible assets with finite life are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment and intangible assets with finite life would increase our recorded depreciation and amortization and decrease our property, plant and equipment and intangible assets.

The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php14,532 million and Php15,289 million for the six months ended June 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php153 million and Php235 million for the six months ended June 30, 2013 and 2012, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization from continuing operations, amounted to Php189,164 million, Php200,078 million and Php200,142 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php1,529 million as at June 30, 2013 and December 31, 2012, respectively.

The total amortization of intangible assets with definite life from continuing operations amounted to Php453 million and Php712 million for the six months ended June 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php55 million and Php73 million for the six months ended June 30, 2013 and 2012, respectively. Total carrying values of intangible assets with definite life from continuing operations amounted to Php7,652 million, Php7,505 million and Php8,698 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php354 million as at June 30, 2013 and December 31, 2012, respectively.

See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information, Note 9 – Property, Plant and Equipment and Note 14 – Goodwill and Intangible Assets.

Determining the fair value of investment properties

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

There were no gains from fair value adjustments charged to profit or loss in each of the six months ended June 30, 2013 and 2012. Total carrying values of our investment properties amounted to Php712 million each as at June 30, 2013 and December 31, 2012 and Php1,115 million as at January 1, 2012. 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. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

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

The total amortization of intangible assets from continuing operations amounted to Php453 million and Php712 million for the six months ended June 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php55 million and Php73 million for the six months ended June 30, 2013 and 2012, respectively. Total carrying values of goodwill and intangible assets from continuing operations amounted to Php74,356 million, Php74,250 million and Php83,303 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil million and Php7,033 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 14 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets. Based on Smart and SBI'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 Php13,614 million, Php15,351 million and Php16,098 million as at June 30, 2013, December 31, 2012 and January 1, 2012, 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 Php3,969 million, Php3,655 million and Php4,240 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. Total consolidated benefit from deferred income tax from continuing operations amounted to Php1,567 million for the six months ended June 30, 2013 and total consolidated provision for deferred income tax from continuing operations amounted to Php1,006 million for the six months ended June 30, 2012, while provision for deferred income tax from discontinued operations amounted to Php30 million and Php23 million for the six months ended June 30, 2013 and 2012, respectively. Total consolidated net deferred income tax assets from continuing operations amounted to Php7,672 million, Php7,225 million and Php5,117 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php212 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for doubtful accounts

If we assessed that there was 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 collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

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

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php1,296 million and Php959 million for the six months ended June 30, 2013 and 2012, respectively. Trade and other receivables, net of allowance for doubtful accounts, from continuing operations amounted to Php17,234 million, Php16,379 million and Php16,245 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php2,704 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses – Asset Impairment*, *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 Php95 million and Php225 million for the six months ended June 30, 2013 and 2012, respectively. The carrying values of inventories and supplies amounted to Php2,801 million, Php3,467 million and Php3,827 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses – Asset Impairment* and *Note 17 – Inventories and Supplies*.

Estimating 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 every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php583 million and Php273 million for the six months ended June 30, 2013 and 2012, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php9 million and Php95 million for the six months ended June 30, 2013 and 2012, respectively. The prepaid benefit costs from continuing operations amounted to Php3,043 million, Php1,471 million and Php8,482 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. The accrued benefit costs from continuing operations amounted to Php579 million, Php331 million and Php496 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil million and Php221 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 5 – Income and Expenses – Compensation and Employee Benefits*, *Note 18 – Prepayments* and *Note 25 – Employee Benefits – Defined Benefit Pension Plans*.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the six months ended June 30, 2013 and 2012 amounted to Php740 million and Php755 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,217 million and Php1,490 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 25 – Employee Benefits – Other Long-term Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,628 million, Php2,543 million and Php2,107 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 – Provisions and Contingencies*.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

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 in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *PAS 18, Revenue Recognition*, and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

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

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

Determination of fair values of financial assets and liabilities

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

Total fair values of financial assets and liabilities as at June 30, 2013 amounted to Php76,429 million and Php224,007 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2012 amounted to Php68,961 million and Php233,541 million, respectively. The total fair values of financial assets and liabilities as at January 1, 2012 amounted to Php72,002 million and Php216,443 million, respectively. 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, or our Management Committee, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- **Wireless** – wireless telecommunications services provided by Smart, CURE and DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Voyager, Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;
- **Fixed Line** – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 10% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT, IPCDSI and AGS Group; and netGames; and bills printing and other VAS-related services provided by ePDS; and
- **Others** – PCEV and PGIH, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies*, and *Note 13 – Business Combinations*, for further discussion.

As at June 30, 2013, our chief operating decision maker views our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and should the negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the six months ended June 30, 2012 to present the results of operations of our BPO business as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations*.

The chief operating decision maker monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income (loss) in the consolidated financial statements.

EBITDA for the year 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 for the year is measured as EBITDA divided by service revenues.

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

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

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

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statement, which is in accordance with PFRS.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments for the six months ended June 30, 2013 and 2012 and as at June 30, 2013 and December 31, 2012 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
June 30, 2013 (Unaudited)					
Revenues					
External customers	58,085	25,014	–	–	83,099
Service revenues (Notes 2 and 3)	56,863	24,272	–	–	81,135
Non-service revenues (Notes 3 and 5)	1,222	742	–	–	1,964
Inter-segment transactions	850	6,462	–	(7,312)	–
Service revenues (Note 3)	850	6,402	–	(7,252)	–
Non-service revenues (Notes 3 and 5)	–	60	–	(60)	–
Total revenues	58,935	31,476	–	(7,312)	83,099
Results					
Depreciation and amortization (Notes 3 and 9)	8,144	6,388	–	–	14,532
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	796	595	–	–	1,391
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(41)	23	1,118	–	1,100
Interest income (Notes 2 and 5)	226	227	40	(8)	485
Financing costs – net (Notes 2, 5, 9, 20 and 27)	1,512	1,823	–	(8)	3,327
Provision for income tax (Notes 3 and 7)	3,837	767	73	–	4,677
Net income / Segment profit	12,664	3,188	1,863	146	19,724
Continuing operations	12,664	3,188	1,863	146	17,861
Discontinued operations (Notes 2 and 8)	–	–	–	–	1,863
EBITDA	28,068	11,370	(2)	372	39,991
Continuing operations	28,068	11,370	(2)	372	39,808
Discontinued operations	–	–	–	–	183
EBITDA margin	49%	37%	–	(2%)	49%
Core income	14,003	3,946	1,399	146	19,395
Continuing operations	14,003	3,946	1,399	146	19,494
Discontinued operations	–	–	–	–	(99)
Assets and liabilities					
Operating assets	199,105	180,055	20,191	(44,660)	354,691
Investments in associates and joint ventures and deposit (Notes 3, 5 and 10)	13	10,430	22,450	–	32,893
Deferred income tax assets – net (Notes 3 and 7)	930	6,742	–	–	7,672
Assets classified as held-for-sale (Notes 2 and 10)	–	355	–	–	355
Total assets	200,048	197,582	42,641	(44,660)	395,611
Operating liabilities	131,159	136,917	1,299	(22,092)	247,283
Deferred income tax liabilities – net (Notes 3 and 7)	3,700	800	42	–	4,542
Liabilities directly associated with assets classified as held-for-sale (Note 2)	–	–	–	–	–
Total liabilities	134,859	137,717	1,341	(22,092)	251,825

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
Other segment information					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	2,753	2,034	–	–	4,787
June 30, 2012 (As Adjusted – Note 2)⁽¹⁾					
Revenues					
External customers	57,008	24,228	–	–	81,236
Service revenues (Notes 2 and 3)	55,827	23,902	–	–	79,729
Non-service revenues (Notes 3 and 5)	1,181	326	–	–	1,507
Inter-segment transactions	848	5,592	–	(6,440)	–
Service revenues (Note 3)	848	5,587	–	(6,435)	–
Non-service revenues (Notes 3 and 5)	–	5	–	(5)	–
Total revenues	57,856	29,820	–	(6,440)	81,236
Results					
Depreciation and amortization (Notes 3 and 9)	8,756	6,533	–	–	15,289
Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)	658	526	–	–	1,184
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(25)	113	1,223	–	1,311
Interest income (Notes 2 and 5)	296	314	9	–	619
Financing costs – net (Notes 2, 5, 9, 20 and 27)	1,370	1,994	–	–	3,364
Provision for income tax (Notes 3 and 7)	5,670	561	4	–	6,235
Net income / Segment profit	13,456	1,915	3,446	188	19,251
Continuing operations	13,456	1,915	3,446	188	19,005
Discontinued operations (Notes 2 and 8)	–	–	–	–	246
EBITDA	28,232	9,903	(11)	240	39,119
Continuing operations	28,232	9,903	(11)	240	38,364
Discontinued operations	–	–	–	–	755
EBITDA margin	50%	34%	–	(2)	48%
Core income from:	12,707	1,756	3,539	188	18,441
Continuing operations	12,707	1,756	3,539	188	18,190
Discontinued operations	–	–	–	–	251
December 31, 2012 (As Adjusted – Note 2)⁽²⁾					
Assets and liabilities					
Operating assets	202,494	282,656	9,979	(137,366)	357,763
Investments in associates and joint ventures and deposit (Notes 3, 5 and 10)	54	6,222	20,801	–	27,077
Deferred income tax assets – net (Notes 3 and 7)	754	6,471	–	–	7,225
Assets classified as held-for-sale (Notes 2 and 10)	–	–	–	–	13,750
Total assets	203,302	295,349	30,780	(137,366)	405,815
Operating liabilities	134,524	138,338	4,788	(25,893)	251,757
Deferred income tax liabilities – net (Notes 3 and 7)	4,918	795	–	–	5,713
Liabilities directly associated with assets classified as held-for-sale (Note 2)	–	–	–	–	2,611
Total liabilities	139,442	139,133	4,788	(25,893)	260,081
Other segment information⁽¹⁾					
Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)	5,202	3,920	–	–	9,298
Continuing operations	5,202	3,920	–	–	9,122
Discontinued operations	–	–	–	–	176

⁽¹⁾ The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the adoption of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures.

⁽²⁾ The December 31, 2012 comparative information was restated to reflect the adjustments on the adoption of the Revised PAS 19 and certain presentation adjustments to conform with the current presentation of our business segments. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the six months ended June 30, 2013 and 2012:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
(in million pesos)		
EBITDA from continuing operations	39,808	38,364
EBITDA from discontinued operations	183	755
Consolidated EBITDA	39,991	39,119
Add (deduct) adjustments to continuing operations:		
Other income (Notes 2 and 18)	1,858	3,142
Equity share in net earnings of associates and joint ventures (Note 10)	1,100	1,311
Interest income (Notes 2, 5 and 15)	485	619
Gains (losses) on derivative financial instruments – net (Notes 2 and 27)	448	(437)
Amortization of intangible assets (Notes 3 and 14)	(453)	(712)
Retroactive effect of adoption of Revised PAS 19 (Note 2) ⁽¹⁾	(927)	–
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(1,922)	1,606
Financing costs – net (Notes 2, 5, 9, 20 and 27)	(3,327)	(3,364)
Provision for income tax (Notes 2, 3 and 7)	(4,677)	(6,235)
Depreciation and amortization (Notes 3 and 9)	(14,532)	(15,289)
Total adjustments	(21,947)	(19,359)

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Adjustment to discontinued operations (Note 2)	1,680	(509)
Net income from continuing operations	17,861	19,005
Net income from discontinued operations (Note 2)	1,863	246
Consolidated net income	19,724	19,251

⁽¹⁾ The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the six months ended June 30, 2013 and 2012:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Core income from continuing operations	19,494	18,190
Core income from discontinued operations	(99)	251
Consolidated core income	19,395	18,441
Add (deduct) adjustments to continuing operations:		
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)	594	(264)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	89	(93)
Net income (loss) attributable to noncontrolling interests	17	(31)
Retroactive effect of adoption of Revised PAS 19 (Note 2) ⁽¹⁾	(927)	–
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(1,922)	1,606
Net tax effect of aforementioned adjustments	516	(403)
Total adjustments	(1,633)	815
Adjustment to discontinued operations	1,962	(5)
Net income from continuing operations	17,861	19,005
Net income from discontinued operations (Note 2)	1,863	246
Consolidated net income	19,724	19,251

⁽¹⁾ The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the six months ended June 30, 2013 and 2012:

	2013		2012	
	Basic	Diluted	Basic	Diluted
	(Unaudited)		(As Adjusted – Note 2)	
Core EPS continuing operations	90.10	90.10	84.08	84.08
Core EPS discontinued operations	(0.46)	(0.46)	1.16	1.16
Consolidated core EPS	89.64	89.64	85.24	85.24
Foreign exchange gains (losses) – net (Notes 2, 9 and 27)	(6.44)	(6.44)	5.20	5.20
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)	1.92	1.92	(0.85)	(0.85)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	0.41	0.41	(0.43)	(0.43)
Retroactive effect of adoption of Revised PAS 19 (Note 2)	(3.52)	(3.52)	–	–
Total adjustment	(7.63)	(7.63)	3.92	3.92
Adjustments to discontinued operations	9.08	9.08	(0.03)	(0.03)
EPS from continuing operations attributable to common equity holders of PLDT	82.47	82.47	88.00	88.00
EPS from discontinued operations attributable to common equity holders of PLDT	8.62	8.62	1.13	1.13
Consolidated EPS attributable to common equity holders of PLDT (Note 8)	91.09	91.09	89.13	89.13

The following table presents our revenues from external customers by category of products and services for the six months ended June 30, 2013 and 2012:

	2013	2012
	(Unaudited)	(As Adjusted*)
	(in million pesos)	
Wireless services		
Service revenues:		
Cellular	51,539	50,873
Broadband, satellite and others	5,324	4,954
	56,863	55,827
Non-service revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	1,222	1,181
Total wireless revenues	58,085	57,008
Fixed line services		
Services revenues:		
Local exchange	8,074	8,235
International long distance	3,499	3,526
National long distance	2,158	2,449
Data and other network	10,194	9,361
Miscellaneous	347	331
	24,272	23,902
Non-service revenues:		
Sale of computers	529	182
Point-product-sales	213	144
	742	326
Total fixed line revenues	25,014	24,228
Total revenues from continuing operations	83,099	81,236

* The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment and certain presentation adjustments to conform with the current presentation of our business segments.

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 six months ended June 30, 2013 and 2012, no revenue transactions with a single external customer had accounted for 10% or more of our consolidated revenues from external customers.

5. Income and Expenses

Non-service Revenues

Non-service revenues for the six months ended June 30, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	1,751	1,363
Point-product-sales	213	144
(Note 4)	1,964	1,507

Compensation and Employee Benefits

Compensation and employee benefits for the six months ended June 30, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Salaries and other employee benefits	8,699	8,574
MRP ⁽¹⁾	977	1,745
Incentive plans (Notes 3 and 25)	740	755
Pension benefit costs (Notes 3 and 25)	583	273
	10,999	11,347

⁽¹⁾ Includes the retroactive effect of the adoption of the Revised PAS 19 in MRP costs of Php927 million in the second quarter of 2013. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The total MRP cost charged to operations amounted to Php977 million and Php1,745 million for the six months ended June 30, 2013 and 2012, respectively. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

Cost of Sales

Cost of sales for the six months ended June 30, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	5,362	4,319
Cost of point-product-sales	149	120
Cost of satellite air time and terminal units (Note 24)	27	44
	5,538	4,483

Asset Impairment

Asset impairment for the six months ended June 31, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Notes 3 and 16)	1,296	959
Inventories and supplies (Notes 3 and 17)	95	225
	1,391	1,184

Interest Income

Interest income for the six months ended June 30, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Interest income on other loans and receivables	480	590
Interest income on HTM investments (Note 11)	5	16
Interest income on FVPL (Note 4)	–	13
	485	619

Financing Costs – net

Financing costs – net for the six months ended June 30, 2013 and 2012 consists of the following:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Interest on loans and other related items (Notes 20 and 27)	2,649	3,137
Accretion on financial liabilities (Notes 20 and 27)	697	546
Financing charges	284	157
Capitalized interest (Note 9) (Note 4)	(303)	(476)
	3,327	3,364

6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the six months ended June 30, 2013 and 2012 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains on available-for-sale financial investments – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Actuarial gains (losses) on defined benefits plans	Total other comprehensive income (loss) attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive income (loss) – net of tax
(in million pesos)								
Balances as at January 1, 2013	431	75	44	240	(4,177)	(3,387)	8	(3,379)
Other comprehensive income (loss) from:								
Continuing operations	792	25	(181)	(1)	531	1,166	(6)	1,160
Discontinued operations	(747)	–	12	–	–	(735)	–	(735)
Balances as at June 30, 2013 (Unaudited)	476	100	(125)	239	(3,646)	(2,956)	2	(2,954)
Balances as at January 1, 2012	(1,024)	52	14	314	2,100	1,456	8	1,464
Other comprehensive income (loss) from continuing operations	(551)	3	38	(1)	–	(511)	–	(511)
Balances as at June 30, 2012 (As Adjusted – Note 2)	(1,575)	55	52	313	2,100	945	8	953

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment transferred to investment property at the time of change in classification.

7. Income Taxes

Corporate Income Tax

The major components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 31, 2013 (Unaudited)	December 31, 2012 (As Adjusted – Note 2)	January 1, 2012
(in million pesos)			
Net deferred income tax assets (Notes 3 and 4)	7,672	7,225	5,117
Net deferred income tax liabilities (Notes 3 and 4)	(4,542)	(5,713)	(7,078)

The components of our consolidated net deferred income tax assets and liabilities as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013 (Unaudited)	December 31, 2012 (As Adjusted – Note 2)	January 1, 2012
(in million pesos)			
Net deferred income tax assets:			
Unamortized past service pension costs	2,625	2,244	2,124
Accumulated provision for doubtful accounts	2,428	2,379	2,466
Unearned revenues	2,829	2,305	2,726
Derivative financial instruments	747	922	768
Unrealized foreign exchange losses	655	970	111
Provision for other assets	479	367	441
Accumulated write-down of inventories to net realizable values	152	135	198
NOLCO	143	145	326
MCIT	37	33	9
Fixed asset impairment	52	24	1,469
Capitalized taxes and duties – net of amortization	(35)	(65)	(125)
Capitalized foreign exchange differential – net of depreciation	(34)	(100)	(231)
Pension and other employee benefits	(534)	(369)	(2,511)
Undepreciated capitalized interest charges	(1,879)	(1,964)	(2,624)
Others	7	199	(30)
Total deferred income tax assets	7,672	7,225	5,117
Net deferred income tax liabilities:			
Intangible assets – net of amortization	3,287	3,607	3,725
Unrealized foreign exchange gains	912	2,049	1,756
Fair value adjustment on fixed assets from business combinations	636	687	997
Undepreciated capitalized interest charges	10	82	582
Others	(303)	(712)	18
Total deferred income tax liabilities	4,542	5,713	7,078

Changes in our consolidated net deferred income tax assets (liabilities) as at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the period (Notes 3 and 4)	7,225	5,117
Net deferred income tax liabilities – balance at beginning of the period (Notes 3 and 4)	(5,713)	(7,078)
Net balance at beginning of the period	1,512	(1,961)
Provision for deferred income tax (Note 3)	1,567	947
Movement charged directly to equity	57	2,614
Discontinued operations	–	(65)
Others	(6)	(23)
Net balance at end of the period	3,130	1,512
Net deferred income tax assets – balance at end of the period (Notes 3 and 4)	7,672	7,225
Net deferred income tax liabilities – balance at end of the period (Notes 3 and 4)	(4,542)	(5,713)

The analysis of our consolidated net deferred income tax assets as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	
	(in million pesos)		
Deferred income tax assets:			
Deferred income tax assets to be recovered after 12 months	8,257	7,135	8,505
Deferred income tax assets to be recovered within 12 months	2,758	2,820	2,541
	11,015	9,955	11,046
Deferred income tax liabilities:			
Deferred income tax liabilities to be settled after 12 months	(2,592)	(2,040)	(5,159)
Deferred income tax liabilities to be settled within 12 months	(751)	(690)	(770)
	(3,343)	(2,730)	(5,929)
Net deferred income tax assets (Notes 3 and 4)	7,672	7,225	5,117

The analysis of our consolidated net deferred income tax liabilities as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	
	(in million pesos)		
Deferred income tax assets:			
Deferred income tax assets to be recovered after 12 months	323	835	–
Deferred income tax assets to be recovered within 12 months	–	263	274
	323	1,098	274
Deferred income tax liabilities:			
Deferred income tax liabilities to be settled after 12 months	(3,922)	(6,173)	(6,982)
Deferred income tax liabilities to be settled within 12 months	(943)	(638)	(370)
	(4,865)	(6,811)	(7,352)
Net deferred income tax liabilities (Notes 3 and 4)	(4,542)	(5,713)	(7,078)

Provision for (benefit from) corporate income tax from continuing operations for the six months ended June 30, 2013 and 2012 consists of:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Current	6,244	5,229
Deferred (Note 3)	(1,567)	1,006
	4,677	6,235

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Provision for income tax at the applicable statutory tax rate:		
Continuing operations	6,761	7,572
Discontinued operations (Note 2)	575	128
	7,336	7,700
Tax effects of:		
Nondeductible expenses	145	586
Income not subject to income tax	(100)	(161)
Equity share in net earnings of associates and joint ventures	(330)	(393)
Income subject to final tax	(440)	(214)
Difference between OSD and itemized deductions	(643)	–
Income subject to lower tax rate	(648)	(99)
Net movement in unrecognized deferred income tax assets and other adjustments	(588)	(1,003)
	(2,604)	(1,284)
Actual provision for corporate income tax:		
Continuing operations	4,677	6,235
Discontinued operations (Note 2)	55	181
	4,732	6,416

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act No. 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 SBI project to use the OSD method for computing the taxable income in the foreseeable future. Certain deferred income tax assets and liabilities of Smart and SBI, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php3,969 million, Php3,655 million and Php4,240 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Recognition of Deferred Income Tax Assets and Liabilities*.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
	(in million pesos)		
Fixed asset impairment	20,626	23,881	29,029
Provisions for other assets	7,039	8,303	6,532
NOLCO	6,756	8,741	11,372
Unearned revenues	5,282	5,023	893
Accumulated provision for doubtful accounts	3,379	3,177	4,113
Pension and other employee benefits	541	155	127
Asset retirement obligation	523	902	627
Accumulated write-down of inventories to net realizable values	264	167	270
MCIT	185	133	133
Derivative financial instruments	148	132	155
Unrealized foreign exchange losses	25	28	22
Operating lease and others	180	217	76
	44,948	50,859	53,349
Unrecognized deferred income tax assets (Note 3)	13,614	15,351	16,098

As at June 30, 2013, Digitel Group's deferred income tax assets were not recognized because management believes that there is no sufficient income that will be available upon which these can be utilized. Digitel Group's unrecognized deferred income tax assets amounted to Php13,445 million, Php15,098 million and Php14,766 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

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 June 30, 2013 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2010	December 31, 2013	7	162
December 31, 2011	December 31, 2014	7	6,511
December 31, 2012	December 31, 2015	193	323
June 30, 2013	December 31, 2016	15	239
		222	7,235
Consolidated tax benefits		222	2,171
Consolidated unrecognized deferred income tax assets		(185)	(2,028)
Consolidated recognized deferred income tax assets		37	143

The excess MCIT totaling Php222 million as at June 30, 2013 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php107 million and Php4 million for the six months ended June 30, 2013 and 2012, respectively. The amount of expired portion of excess MCIT amounted to Php2 million and nil for the six months ended June 30, 2013 and 2012, respectively.

NOLCO totaling Php7,235 million as at June 30, 2013 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php226 million and Php1,706 million for the six months ended June 30, 2013 and 2012, respectively. The amount of expired portion of excess NOLCO amounted to nil for the six months ended June 30, 2013 and 2012.

There are no income tax consequences attached to the payment of dividends in 2013 and 2012 by the PLDT Group to its shareholders.

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 Authorities, or PEZA

SHI was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SHI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting June 2009. However, SHI is in a net loss position as at June 2013 and for the year ended December 2012, hence, no tax incentives were availed from the registration with the Economic Zone.

On July 23, 2013, PEZA approved IPCDSI's application for pioneer status as an Ecozone IT enterprise (take-over of PEZA-registered activities of IP Converge Data Center, Inc., or IPDCI). IPCDSI was granted a three-year ITH for its expansion project up to June 29, 2015, among others. Income from its IT operations shall be covered by the 5% gross income tax incentive, in lieu of all national and local taxes, including additional deductions for training expenses.

Registration with BOI

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007. 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 as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php12 million and Php118 million for the six months ended June 30, 2013 and 2012, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the six months ended June 30, 2013 and 2012:

	2013		2012	
	(Unaudited)		(As Adjusted – Note 2)	
	Basic	Diluted	Basic	Diluted
	(in million pesos)			
Net income attributable to equity holders of PLDT from:				
Continuing operations	17,844	17,844	19,036	19,036
Discontinued operations (Notes 2 and 4)	1,863	1,863	246	246
Consolidated net income attributable to common shares (Note 4)	19,707	19,707	19,282	19,282
Dividends on preferred shares (Note 19)	(27)	(27)	(25)	(25)
Consolidated net income attributable to common equity holders of PLDT	19,680	19,680	19,257	19,257
	(in thousands, except per share amounts)			
Outstanding common shares at beginning of the period	216,056	216,056	214,436	214,436
Effect of issuance of common shares during the period (Note 19)	–	–	1,619	1,619
Weighted average number of common shares	216,056	216,056	216,055	216,055
EPS from continuing operations	82.47	82.47	88.00	88.00
EPS from discontinued operations (Note 2)	8.62	8.62	1.13	1.13
EPS attributable to common equity holders of PLDT (Note 4)	Php91.09	Php91.09	Php89.13	Php 89.13

Basic EPS amounts are calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the 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, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digital shares.

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.

9. Property, Plant and Equipment

Changes in property, plant and equipment account for the six months ended June 30, 2013 and for the year ended December 31, 2012 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)										
January 1, 2012 (Unaudited)										
Cost	146,430	92,953	119,791	24,299	40,731	966	9,102	3,014	44,361	481,647
Accumulated depreciation, impairment and amortization	(86,947)	(72,368)	(68,473)	(11,716)	(32,881)	(966)	(7,876)	(278)	–	(281,505)
Net book value	59,483	20,585	51,318	12,583	7,850	–	1,226	2,736	44,361	200,142
Year Ended December 31, 2012 (Audited)										
Net book value at beginning of the year	59,483	20,585	51,318	12,583	7,850	–	1,226	2,736	44,361	200,142
Additions	2,750	415	8,879	562	2,549	–	387	2	21,144	36,888
Disposals/Retirements	(10)	(5)	(26)	(4)	(74)	–	–	(7)	–	(126)
Translation differences charged directly to cumulative translation adjustments	(2)	(10)	–	(15)	(49)	–	–	–	(7)	(83)
Acquisition through business combinations (Note 13)	112	104	–	45	6	–	–	–	–	267
Impairment losses recognized during the year	(5)	–	(2,876)	–	–	–	–	–	–	(2,881)
Reclassifications (Notes 12 and 17)	1,543	(321)	(3,452)	131	2,438	–	(65)	401	(253)	422
Transfers	8,000	4,045	4,227	449	990	–	47	–	(17,758)	–
Depreciation of revaluation increment on investment properties transferred to property, plant and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization (Note 2)	(11,380)	(4,130)	(9,678)	(1,493)	(5,606)	–	(532)	(1)	–	(32,820)
Discontinued operations (Note 2)	–	(155)	–	(340)	(694)	–	–	(165)	(175)	(1,529)
Net book value at end of the year (Note 3)	60,491	20,528	48,392	11,916	7,410	–	1,063	2,966	47,312	200,078
As at December 31, 2012 (Audited)										
Cost	157,036	95,258	100,935	24,333	42,628	966	9,341	3,224	47,312	481,033
Accumulated depreciation, impairment and amortization	(96,545)	(74,730)	(52,543)	(12,417)	(35,218)	(966)	(8,278)	(258)	–	(280,955)
Net book value (Note 3)	60,491	20,528	48,392	11,916	7,410	–	1,063	2,966	47,312	200,078
Period Ended June 30, 2013 (Unaudited)										
Net book value at beginning of the period (Note 3)	60,491	20,528	48,392	11,916	7,410	–	1,063	2,966	47,312	200,078
Additions	1,541	77	2,743	143	941	–	280	–	892	6,617
Disposals/Retirements	(7)	(97)	(16)	–	(44)	–	–	–	–	(164)
Translation differences charged directly to cumulative translation adjustments	–	3	–	(1)	6	–	–	–	–	8
Reclassifications (Notes 12 and 17)	(3)	–	–	–	–	–	–	–	(2,839)	(2,842)
Depreciation of revaluation increment on investment properties transferred to property, plant and equipment charged to other comprehensive income	–	–	–	(1)	–	–	–	–	–	(1)
Transfers and others	2,836	1,569	3,664	129	611	–	54	1	(8,864)	–
Depreciation and amortization (Notes 2, 3 and 4)	(4,422)	(1,878)	(5,376)	(677)	(1,882)	–	(296)	(1)	–	(14,532)
Net book value at end of the period (Note 3)	60,436	20,202	49,407	11,509	7,042	–	1,101	2,966	36,501	189,164
As at June 30, 2013 (Unaudited)										
Cost	175,045	114,990	150,015	26,464	47,926	966	10,757	3,224	36,501	565,888
Accumulated depreciation, impairment and amortization	(114,609)	(94,788)	(100,608)	(14,955)	(40,884)	(966)	(9,656)	(258)	–	(376,724)
Net book value (Note 3)	60,436	20,202	49,407	11,509	7,042	–	1,101	2,966	36,501	189,164

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

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php303 million and Php476 million for the six months ended June 30, 2013 and 2012, respectively. See Note 5 – *Income and Expenses – Financing Costs*. Our undepreciated interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php7,371 million, Php7,686 million and Php10,357 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. The average interest capitalization rates used were approximately 4% and 6% for the six months ended June 30, 2013 and 2012, respectively.

Our undepreciated capitalized net foreign exchange losses, which qualified as borrowing costs amounted to Php116 million, Php353 million and Php837 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the six months ended June 30, 2013 and 2012.

The useful lives of our property, plant and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	3 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 years
Vehicles, furniture and other network equipment	3 – 5 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases, which amounted to Php19 million, Php22 million and Php6 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases.

Impairment of Certain Network Equipment and Facilities of DMPI

In December 2012, DMPI recognized an impairment loss of Php2,881 million representing write-down of certain telecommunications equipment and related infrastructure to their recoverable amounts. The impairment loss pertains to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart.

The necessary alignment of the DMPI's network with the massive modernization program of Smart due to advancement in technologies resulted to an impairment of certain equipment and facilities of the former based on an overall assessment and synergy plan.

Impairment of Certain Network Equipment and Facilities of Smart

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The modernization program is designed to enable the delivery and fulfillment of advanced capabilities to support multimedia services and upcoming technologies in our technology roadmap by substantially expanding capacity, enhancing capabilities and improving quality of experience to meet the increasing demand for cellular, and advanced broadband services in a highly competitive playing field. This program is expected to result to savings in operating expenses, as well as alignment of Smart and Digitel networks. The full impairment provision recognized represents the net book value of these network equipment and facilities. No impairment loss was recognized for the six months ended June 30, 2013 and for the year ended December 31, 2012.

10. Investments in Associates and Joint Ventures and Deposit

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	January 1, 2012 (Audited)
	(in million pesos)		
Carrying value of investments in associates:			
Pacific Global One Aviation Co., Inc., or PG1	120	132	155
Digitel Crossing, Inc., or DCI	90	90	92
Philweb Corporation, or Philweb	-	-	1,025
ACeS International Limited, or AIL	-	-	-
Asia Netcom Philippines Corp., or ANPC	-	-	-
Beta	1,620	-	-
	1,830	222	1,272
Carrying value of investments in joint ventures:			
Beacon Electric Asset Holdings, Inc., or Beacon	22,450	20,801	16,593
Mobile Payment Solutions Pte. Ltd., or MPS	13	54	-
PLDT Italy S.r.l., or PLDT Italy	-	-	-
	22,463	20,855	16,593
Deposit for future Philippine Depositary Receipts, or PDRs, subscription:			
MediaQuest Holdings, Inc., or MediaQuest	8,600	6,000	-
Total carrying value of investments in associates and joint ventures and deposit	32,893	27,077	17,865

Changes in the cost of investments for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	2013	2012
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	20,312	18,196
Additions during the period	1,644	2,843
Assets classified as held-for-sale	-	(712)
Translation and other adjustments	96	(15)
Balance at end of the period	22,052	20,312

Changes in the accumulated impairment losses for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	2013	2012
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	1,877	1,882
Translation and other adjustments	4	(5)
Balance at end of the period	1,881	1,877

Changes in the accumulated equity share in net earnings of associates and joint ventures for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	2013	2012
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	2,642	1,551
Equity share in net earnings of associates and joint ventures (Note 4):	1,100	1,538
Beacon	1,118	1,508
Beta	35	-
PG1	(12)	(26)
MPS	(41)	(78)
Philweb*	-	136
DCI	-	(2)
Dividends	-	(33)
Assets classified as held-for-sale	-	(416)
Translation and other adjustments	380	2
Balance at end of the period	4,122	2,642

* Represents share in net earnings of Philweb for the six months ended June 30, 2012.

Investments in Associates

Investment in PG1

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, Metro Pacific Investments Corporation, or MPIC, and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PG1, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed for 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PG1 and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PG1 certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million shall be paid by PG1 to PLDT in cash as soon as reasonably practicable after incorporation.

MPG, Philex, MPTC, MPIC and JSL owns 5%, 15%, 5%, 10% and 15% of PG1, respectively. PLDT has significant influence in PG1, and was accounted for as investment in associate.

PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PG1, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PG1.

Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in ANPC and DCI, respectively. DCI is involved in the business of cable system linking Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, or JV, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US\$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011, Digitel recorded a reversal of impairment loss amounting to Php92 million following recent improvement in the associate's operations.

Digitel has no control over ANPC despite owning more than half of voting interest because of certain governance matters, and management has assessed that Digitel only has significant influence.

Digitel's investment in DCI does not qualify as investment in JV as there is no provision for joint control in the JV agreement among Digitel, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at the date of issuance of this report, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements.

Investment of ePLDT in Philweb

In May 2006, ePLDT subscribed to newly issued common shares of Philweb for an aggregate amount of Php503 million, representing 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. The remaining Php75 million was paid in July 2012, as discussed below.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share for an aggregate amount of Php209 million.

On September 22, 2009, PSE approved the change in par value of Philweb shares from Php0.01 to Php1.00. Thus, the total number of shares subscribed by ePLDT reduced to 332 million shares from 33,157 million shares.

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. The market value of ePLDT's investment in Philweb amounted to Php5,093 million, based on quoted share price of Php15.36 as at December 31, 2011.

On April 19, 2012, Philweb approved the 20% stock dividend declaration payable on May 30, 2012 to stockholders of record as at May 4, 2012, thereby increasing ePLDT's shares to 398 million shares.

On June 30, 2012, as a result of the committed plan of ePLDT to sell its interest over Philweb following a strategic review of the PLDT Group's business, the investment in Philweb was reclassified as assets held-for-sale in accordance with *PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations*. Consequently, the assets held-for-sale was carried at the carrying value of the investment in Philweb, which is lower than the fair value less costs to sell of the Philweb shares.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations*.

Philweb shall have the unilateral option to accelerate the acquisition of the portion of the subject shares corresponding to the second to fourth tranches upon prior written notice of five days to ePLDT. The rights (including the rights to receive dividend) to the first to fourth tranches of the subject shares shall belong to Philweb after the closing of the sale of each tranche. The first tranche, which was transacted on July 13, 2012, was for 93.5 million common shares for a purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million.

On October 17, 2012, a Supplement to the Share Purchase Agreement was entered into wherein Philweb designated its wholly-owned subsidiary, Philweb Casino Corporation, or PCC, to act as the buyer of the second to fourth tranches and to make the second to fourth payments.

Subsequently, on October 18, 2012, a Second Supplement to the Share Purchase Agreement was agreed upon between Philweb, ePLDT and PCC, wherein PCC, as the designee of Philweb notified ePLDT of its desire to exercise its option to accelerate the acquisition of the portion of the Philweb shares corresponding to the second tranche from December 12, 2012 to October 18, 2012, or one day after the PSE approves the special block sale, whichever is later. The acquisition of the second tranche, which was for 93.5 million common shares for a purchase price of Php1 billion, was completed on October 22, 2012.

On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the third tranche, or Php1 billion. The fourth tranche will be paid on December 13, 2013 for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the fourth tranche. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments – ePLDT Group*.

The remaining balance of assets held-for-sale amounted to Php355 million and Php638 million as at June 30, 2013 and December 31, 2012, respectively.

Investment of ACeS Philippines in AIL

As at June 30, 2013, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net income of AIL amounted to Php167 million and Php3 million for the six months ended June 30, 2013 and 2012, respectively. Share in net cumulative losses amounting to Php1,587 million, Php2,005 million and Php2,035 million as at June 30, 2013, December 31, 2012 and January 1, 2012, 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 – Air Time Purchase Agreement between PLDT and AIL Related Agreements* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations* for further details as to the contractual relationships with respect to AIL.

Investment of PLDT Global Investments Corporation, or PGIC, in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, and Beta, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 19.7% equity interest in Beta for a total cost of approximately US\$40 million, which consists of preferred shares of US\$39.8 million and ordinary shares of US\$0.2 million. In June 2013, PGIC transferred 112 ordinary shares and 41,069 preferred shares to certain employees of Beta for a total consideration price of US\$42 thousand. The equity interest of PGIC in Beta remained at 19.7% after the transfer with economic interest of 18.24%. See related discussion on *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

Alpha and Beta are both exempted limited liability companies incorporated under the laws of Cayman Islands and are both controlled by CVC. Beta has been designated to be the holding company of the SPi Group.

PGIC is a wholly-owned subsidiary of PLDT Global, which was incorporated under the laws of British Virgin Islands.

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 June 30, 2013, December 31, 2012 and January 1, 2012 and for the six months ended June 30, 2013 and 2012:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
	(in million pesos)		
Statements of Financial Position:			
Noncurrent assets	491	296	893
Current assets	574	610	912
Capital deficiency	(1,260)	(1,678)	(858)
Noncurrent liabilities	748	872	1,489
Current liabilities	1,577	1,712	1,174
		2013	2012
		(Unaudited)	
		(in million pesos)	
Income Statements:			
Revenues		59	165
Expenses		65	106
Other expenses		175	2
Net income		172	56

We have no outstanding contingent liabilities or capital commitments with our associates as at June 30, 2013, December 31, 2012 and January 1, 2012.

Investments in Joint Ventures

Investment in Beacon

On March 1, 2010, PCEV, MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon was organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Manila Electric Company, or Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

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

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

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

Transfer of Meralco Shares to Beacon

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

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 since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

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

Since the transactions involve entities with common shareholders, PCEV recognized a deferred gain on transfer of the Meralco shares amounting to Php8,145 million, equivalent to the difference between the Php15,136 million transfer price of the Meralco shares and the Php6,991 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain was presented as an adjustment to the investment cost of the Beacon preferred shares in 2011. Similar to the deferred gain on the transfer of the 154.2 million Meralco shares, the deferred gain will only be realized upon the disposal of the Meralco shares to a third party.

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php22,450 million, Php20,801 million and Php16,593 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

PCEV's Additional Investment in Beacon

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

Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million, which took effect on June 29, 2012. In this instance, the sale of Beacon preferred shares is deemed as a sale between non-related entities. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon. The carrying value of PCEV's investment in Beacon's preferred shares of Php5,440 million each as at June 30, 2013 and December 31, 2012 and Php6,991 million as at January 1, 2012 was presented as part of available-for-sale financial investments in our consolidated statements of financial position.

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 First Philippine Pacific Holdings Corporation, or 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.

On March 30, 2010, Beacon exercised the Call Option 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.

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option and the 68.8 million shares transferred by PCEV to Beacon in October 2011, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, Rockwell Land Corporation, or Rockwell, common shares that may be declared as property dividends by Meralco. Beacon recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for said Rockwell common shares. The liability for contingent consideration was remeasured based on the fair value of said Rockwell common shares as at December 31, 2011 and 2010 and the resulting remeasurement loss of Php317 million and Php331 million were charged to Beacon's profit or loss for the years ended December 31, 2011 and 2010, respectively.

On February 27, 2012, Meralco's Board of Directors declared its common shareholdings in Rockwell as property dividend, to shareholders of record as at March 23, 2012, payable five days after the approval by the Philippine SEC of such property dividend, which approval was issued on April 25, 2012. Thereafter, Beacon recognized the property dividend received from Meralco as "Investment in available-for-sale financial assets" account. On June 27, 2012, Beacon sold its investment in Rockwell common shares, arising from Meralco shares acquired from the market, to FPHC and FPHC Pension Fund for a cash consideration of Php2 per share or an aggregate amount of Php283 million, thus, recognizing a gain on disposal of investment amounting to Php77 million for the difference between the consideration and the value of the property dividend. On June 27 and 28, 2012, Beacon transferred its investment in Rockwell common shares arising from Meralco shares acquired from PCEV, MPIC, FPHC and First Philippine Utilities Corporation, or FPUC, to FPHC through a crossed sale at the PSE. With the transfer, Beacon derecognized the outstanding balance of its liability for contingent consideration.

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 joint venture.

Beacon's Acquisition of Additional Meralco Shares

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

In January 2012, Beacon acquired 30 million Meralco common shares from FPUC representing approximately 2.7% beneficial ownership in Meralco at nominal value of Php295 per share, or a total of Php8,850 million.

In November 2012, Beacon acquired 3 million Meralco common shares representing approximately 0.3% beneficial ownership in Meralco at nominal value of Php263 per share, or a total of Php842 million.

In December 2012, Beacon acquired 342 thousand Meralco common shares representing approximately 0.03% beneficial ownership in Meralco at nominal value of Php249 per share, or a total value of Php85 million.

As at June 30, 2013, Beacon effectively owns 545 million Meralco common shares representing approximately 48% beneficial ownership in Meralco with a carrying value of Php116,039 million and market value of Php179,670 million based on quoted price of Php330 per share. As at December 31, 2012, Beacon effectively owned 545 million Meralco common shares representing approximately 48% beneficial ownership in Meralco with a carrying value of Php113,940 million and market value of Php141,971 million based on quoted price of Php261 per share. As at January 1, 2012, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of Php104,092 million and market value of Php126,379 million based on quoted price of Php247 per share.

In July 2013, Beacon acquired 10 million Meralco common shares representing 0.9% effective ownership in Meralco at nominal value of Php270 per share, or an aggregate amount of Php2,700 million.

Beacon Financing

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to nil, Php17,441 million and Php17,835 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 24, 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 as at December 31, 2011 amounting to Php4,000 million was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The remaining Php7,000 million was subsequently drawn on July 9, 2012 and used for the payment of the final tranche of the deferred purchase made in May 2011. The outstanding balance of the facility amounted to Php10,866 million, Php10,856 million and Php3,897 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC. The outstanding balance of the facility amounted to Php4,996 million as at June 30, 2013.

On February 6, 2013, Beacon entered into a Php17,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php18,000 million ten-year corporate notes facility under a Facility Agreement dated March 22, 2010. The loan facility is divided into two tranches with the first tranche amounting to Php2,285 million (the "Tranche A") and the second tranche amounting to Php14,715 million (the "Tranche B").

Both tranches have a term of ten years with semi-annual interest payments starting June 27, 2013 and semi-annual unequal principal repayments starting December 27, 2013. The Tranche A bears a fixed interest rate based on the ten-year PDST-F plus a spread, subject to a floor rate. The Tranche B bears a fixed interest rate for the first five years from the Drawdown Date based on the five-year PDST-F plus a spread, subject to a floor rate. For the next five years, the fixed interest rate for Tranche B will be repriced based on the five-year PDST-F on the Business Day immediately preceding the Repricing Date plus a spread, provided that such interest rate shall not be lower than the applicable interest rate for the first five years.

Also, on February 6, 2013, the required consents from Beacon's existing noteholders to prepay the Php18,000 million notes facility have been obtained. On February 21, 2013, Beacon issued a notice to prepay the outstanding amount of the Php18,000 million notes facility and settled the amount on March 27, 2013.

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

Investment of SHI in MPS

In June 2010, SHI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SHI and MasterCard Asia, respectively. On November 9, 2010, SHI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SHI, respectively. On April 25, 2012, SHI remitted the amount of US\$2 million representing the 60% payment for the additional shares allotted to SHI. On August 23, 2012, the balance of US\$1 million representing the 40% of the remaining additional shares was paid.

On March 26, 2012, SHI entered into a licensing agreement with MasterCard Asia to accept and process MasterCard Asia's debit and credit card transactions of accredited merchants. SHI became the first non-bank institution in the country to be granted an acquiring license by MasterCard Asia.

The carrying values of SHI and Mastercard Asia's investment in MPS amounted to Php13 million, Php54 million and nil as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Investment of PLDT Global in PLDT Italy

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

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million each as at June 30, 2013, December 31, 2012 and January 1, 2012. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at June 30, 2013, December 31, 2012 and January 1, 2012.

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 June 30, 2013, December 31, 2012 and January 1, 2012 and for the six months ended June 30, 2013 and 2012:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
	(in million pesos)		
Statements of Financial Position:			
Noncurrent assets	58,023	56,970	51,985
Current assets	1,078	1,158	822
Equity	42,060	40,507	36,210
Noncurrent liabilities	15,984	16,448	10,866
Current liabilities	1,057	1,173	5,731
<hr/>			
		2013	2012
		(Unaudited)	
		(in million pesos)	
Income Statements:			
Revenues		2,201	2,077
Expenses		93	38
Other expenses		657	625
Net income		1,451	1,414

The above information as at June 30, 2013, December 31, 2012 and January 1, 2012 and for the six months ended June 30, 2013 and 2012 includes the financial information of Beacon as shown below:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
	(in million pesos)		
Statements of Financial Position:			
Noncurrent assets	116,039	113,940	104,143
Current assets	2,073	2,149	1,528
Equity	84,123	80,928	72,402
Noncurrent liabilities	31,968	32,896	21,225
Current liabilities	2,021	2,265	12,044
Additional Information:			
Cash and cash equivalents	2,069	2,146	1,472
Current financial liabilities*	729	374	10,601
Noncurrent financial liabilities*	31,968	32,896	21,225

* Excluding trade, other payables and provisions.

	2013	2012
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	4,359	4,080
Expenses	151	12
Other expenses	1,202	1,136
Net income	3,006	2,932
Additional Information:		
Dividends received	405	191
Interest income	21	48
Interest expense	1,193	1,242

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at June 30, 2013, December 31, 2012 and January 1, 2012.

Deposit for Future PDRs Subscription

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV, Inc., or Cignal TV, (formerly Mediascape, Inc.). Cignal TV is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 503 thousand net subscribers as at June 30, 2013.

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

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. See *Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

From March to July 2013, ePLDT made various deposits aggregating to Php3.1 billion for its investment in Satventures PDRs of MediaQuest.

As at August 7, 2013, the MediaQuest PDRs have not been issued.

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

11. Investment in Debt Securities and Other Long-term Investments

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
		(in million pesos)	
Security Bank Corporation, or Security Bank, Time Deposits	303	205	-
PSALM Bond	220	-	-
GT Capital Bond	150	-	-
Home Guaranty Corporation, or HGC, Zero Coupon Bond	91	-	-
National Power Corporation, or NAPOCOR, Zero Coupon Bond	-	150	358
Rizal Commercial Banking Corporation, or RCBC, Note	-	-	150
	764	355	508
Less current portion (Note 27)	91	150	358
Noncurrent portion (Note 27)	673	205	150

Security Bank Time Deposits

In October 2012, PLDT and Smart invested US\$2.5 million each in a five-year time deposit with Security Bank maturing on October 11, 2017 at a gross coupon rate of 4%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposit amounted to US\$93 thousand, or Php4 million, for the six months ended June 30, 2013 and US\$42 thousand, or Php2 million, for the year ended December 31, 2012.

In May 2013, PLDT invested US\$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposit amounted to US\$5 thousand, or Php2 thousand, for the six months ended June 30, 2013.

PSALM Bond

In April 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon of 7.25% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium was discounted using the effective interest rate method. Interest income recognized on the PSALM Bond amounted to Php1.3 million for the six months ended June 30, 2013.

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with a face value of Php150 million, maturing on February 27, 2020. The bond has a gross coupon of 4.8371% payable on a quarterly basis, and was recognized as held-to-maturity investment. Interest income, net of withholding tax, recognized on the GT Capital Bond amounted to Php2.0 million for the six months ended June 30, 2013.

HGC Zero Coupon Bond

In May 2013, Smart purchased, at a discount, a Home Guaranty Corporation Zero Coupon Bond, or HGC Bond, with a face value of Php91.5 million at a yield-to-maturity of 2.50% gross. This investment will mature on November 24, 2013 and was booked as held-to-maturity investment. The HGC Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the HGC Bond amounted to Php255 thousand for the six months ended June 30, 2013.

NAPOCOR Zero Coupon Bond

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, that matured on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to nil and Php12 million for the six months ended June 30, 2013 and 2012, 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 early redeemed its Tier 2 Note with face value of Php150 million and interest payment of Php2 million on February 22, 2013 pursuant to the exercise of Redemption at the Option of the Issuer and as approved by the Bangko Sentral ng Pilipinas. Interest income recognized on the RCBC Note amounted to Php1 million and Php4 million for the six months ended June 30, 2013 and 2012, respectively.

12. Investment Properties

Changes in investment properties account for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	2013 (Unaudited)	2012 (Audited)
	(in million pesos)	
Balance at beginning of the period	712	1,115
Net gains from fair value adjustments charged to profit or loss ⁽¹⁾ (Note 3)	-	21
Disposals	-	(135)
Transfers to property, plant and equipment – net (Note 9)	-	(289)
Balance at end of the period (Note 3)	712	712

⁽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 for land 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, while the valuation for building was based on the depreciated replacement cost approach. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses that do not generate rental income related to investment properties amounted to Php38 million and Php28 million for the six months ended June 30, 2013 and 2012, respectively.

The above investment properties were categorized under Level 2 fair value hierarchy. There were no transfers between Level 2 and Level 3 fair value hierarchy.

13. Business Combinations

2012 Acquisitions

ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT, IPVI and IEI entered into a Sale and Purchase Agreement whereby IPVI and IEI sold its 100% ownership in IPCDSI to ePLDT for a purchase price of Php728 million and Php72 million shareholder advances. The purchase price is subject to adjustments as enumerated herein: (a) receivables of Php13 million as specified in the schedule attached to the Sale and Purchase Agreement, provided that IPCDSI shall have collected such receivables, in whole or in part, within six months from October 12, 2012, or Closing Date; and (b) write-off of Philippine peso and U.S. dollar deposits of IPDCI, former parent company of IPCDSI, in Export and Industry Bank, Inc. amounting to Php8 million.

ePLDT shall pay the purchase price as follows: (a) initial payment of Php629 million on Closing Date; (b) retention amount of Php50 million to be remitted by ePLDT on Claim Period Termination Date (first business day after six months from Closing Date) subject to conditions as set forth in the Sale and Purchase Agreement, among which is the claim for deduction from the retention amount due to establishment of undisclosed liabilities or uncollected receivables; and (c) escrow amount of Php100 million deposited with an escrow agent designed by both parties on Closing Date and will be released to relevant party subject to the amount of EBITDA valuation. An additional consideration may be paid by ePLDT if the EBITDA valuation exceeds Php140 million. ePLDT determined that IPCDSI did not exceed Php140 million; thus, ePLDT does not have any contingent liability as at December 31, 2012.

The purchase price, after the adjustments on retention payable and escrow amount, amounted to Php693 million.

IPCDSI owns and operates two internet data centers in the country and provides enterprises with managed data services and cloud-based business solutions across a wide range of industries including IT solutions providers, gaming companies, e-learning and healthcare. IPCDSI is the country's first and only Salesforce.com Cloud Alliance Partner providing Salesforce CRM licenses and consulting services to businesses. In addition, IPCDSI is also the country's premier Google Enterprise Partner, allowing local organizations to adopt a cloud computing mindset and to ThinkOutCloud™. Our investment in IPCDSI allows us to complete our multi-tiered data center product suite and expand our cloud solutions business. See *Note 2 – Summary of Significant Accounting Policies – ePLDT's Acquisition of IPCDSI*.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of provisional values at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	Previous Carrying Values	Values Recognized on Acquisition
(in million pesos)		
Assets:		
Property, plant and equipment (Note 9)	267	267
Intangible assets (Note 14)	–	2
Other noncurrent assets	7	7
Cash and cash equivalents	14	14
Trade and other receivables	159	159
Prepayments and other current assets	30	30
	477	479
Liabilities:		
Long-term debt	26	26
Obligations under finance lease	18	18
Other noncurrent liabilities	43	43
Accounts payable	212	212
Accrued expenses and other current liabilities	20	20
	319	319
Total identifiable net assets acquired	158	160
Goodwill from the acquisition (Note 14)	–	533
Purchase consideration transferred	158	693
Cash flows from investing activity:		
Net cash acquired with subsidiary		14
Cash paid		(693)
Purchase of subsidiary – net of cash acquired		(679)

The net assets acquired at the date of acquisition were based on a final assessment of fair value.

The fair value and gross amount of trade and other receivables amounted to Php159 million and Php196 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php37 million.

The goodwill of Php533 million pertains to the fair value of IPCDSI's data center business, which includes operations of data centers, managed data services and cloud-based business solutions across a wide range of industries. The intangible assets of Php2 million pertain to the fair value of IPCDSI's customer list and licenses.

Our consolidated revenues and net income would have increased by Php228 million and Php24 million, respectively, for the year ended December 31, 2012 had the acquisition of IPCDSI actually taken place on January 1, 2012. Total revenues and net income of IPCDSI included in our consolidated income statement from October 12 to December 31, 2012 amounted to Php206 million and Php32 million, respectively.

14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	Intangible Assets with Definite Life					Total Intangible Assets with Definite Life	Intangible Assets with Indefinite Life Trademark	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Customer List	Franchise	Licenses	Spectrum	Others					
(in million pesos)										
June 30, 2013 (Unaudited)										
Costs:										
Balance at beginning of the period	4,726	3,016	135	1,205	1,177	10,259	4,505	14,764	62,939	77,703
Additions during the period	-	-	600	-	-	600	-	600	-	600
Translation and other adjustments	-	-	-	-	7	7	-	7	-	7
Business combinations (Note 13)	-	-	-	-	-	-	-	-	(41)	(41)
Balance at end of the period	4,726	3,016	735	1,205	1,184	10,866	4,505	15,371	62,898	78,269
Accumulated amortization and impairment:										
Balance at beginning of the period	722	217	62	669	1,084	2,754	-	2,754	699	3,453
Amortization during the period (Note 3)	259	93	54	40	7	453	-	453	-	453
Translation and other adjustments	-	-	-	-	7	7	-	7	-	7
Balance at end of the period	981	310	116	709	1,098	3,214	-	3,214	699	3,913
Net balance at end of the period (Note 3)	3,745	2,706	619	496	86	7,652	4,505	12,157	62,199	74,356
Estimated useful lives (in years)	1 – 9	16	1 – 18	15	1 – 10	-	-	-	-	-
Remaining useful lives (in years)	1 – 7	15	1 – 9	6	2 – 7	-	-	-	-	-
December 31, 2012 (Audited)										
Costs:										
Balance at beginning of the year	6,231	3,016	120	1,205	1,211	11,783	4,505	16,288	74,322	90,610
Business combinations (Note 13)	1	-	1	-	-	2	-	2	574	576
Noncontrolling interest adjustments (Note 13)	-	-	-	-	-	-	-	-	(919)	(919)
Discontinued operations (Note 2)	(1,691)	-	-	-	(20)	(1,711)	-	(1,711)	(10,097)	(11,808)
Translation and other adjustments	185	-	14	-	(14)	185	-	185	(941)	(756)
Balance at end of the year	4,726	3,016	135	1,205	1,177	10,259	4,505	14,764	62,939	77,703
Accumulated amortization and impairment:										
Balance at beginning of the year	1,360	-	41	589	1,095	3,085	-	3,085	4,222	7,307
Amortization during the year	778	217	7	80	19	1,101	-	1,101	-	1,101
Discontinued operations (Note 2)	(1,338)	-	-	-	(19)	(1,357)	-	(1,357)	(3,418)	(4,775)
Translation and other adjustments	(78)	-	14	-	(11)	(75)	-	(75)	(105)	(180)
Balance at end of the year	722	217	62	669	1,084	2,754	-	2,754	699	3,453
Net balance at end of the year (Note 3)	4,004	2,799	73	536	93	7,505	4,505	12,010	62,240	74,250
Estimated useful lives (in years)	1 – 9	16	1 – 18	15	1 – 10	-	-	-	-	-
Remaining useful lives (in years)	1 – 8	15	2 – 10	7	2 – 7	-	-	-	-	-

The goodwill and intangible assets of our reportable segments as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013 (Unaudited)			December 31, 2012 (Audited)			January 1, 2012 (Audited)			
	Wireless	Fixed Line	Total	Wireless	Fixed Line	Total	Wireless	Fixed Line	BPO	Total
(in million pesos)										
Trademark	4,505	-	4,505	4,505	-	4,505	4,505	-	-	4,505
Customer list	3,745	-	3,745	4,003	1	4,004	4,605	-	266	4,871
Franchise	2,706	-	2,706	2,799	-	2,799	3,016	-	-	3,016
Licenses	618	1	619	73	-	73	79	-	-	79
Spectrum	496	-	496	536	-	536	616	-	-	616
Others	86	-	86	93	-	93	108	-	8	116
Total intangible assets	12,156	1	12,157	12,009	1	12,010	12,929	-	274	13,203
Goodwill	57,322	4,877	62,199	57,322	4,918	62,240	57,140	5,263	7,697	70,100
Total intangible assets and goodwill (Note 3)	69,478	4,878	74,356	69,331	4,919	74,250	70,069	5,263	7,971	83,303

Intangible Assets

In April 2013, Smart entered into a three-year licensing agreement with MCA Music, Inc., an affiliate of the Universal Music Group, the world's largest music company with wholly-owned record operations in 77 countries. Smart recognized intangible assets of Php600 million for license contents and marketing partnership in the Philippines, while amortization amounted to Php50 million for the six months ended June 30, 2013.

There were no impairment indicators identified as at June 30, 2013. Annual impairment testing will be performed at year-end.

The consolidated future amortization of intangible assets as at June 30, 2013 is as follows:

Year	(in million pesos)
2013 ⁽¹⁾	500
2014	999
2015	998
2016	848
2017 and onwards	4,307
Intangible assets with definite life (Note 3)	7,652

⁽¹⁾ July 1, 2013 through December 31, 2013.

Impairment Testing of Goodwill and Intangible Assets with Indefinite Life

The organizational structure of PLDT 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 June 30, 2013, the PLDT Group's goodwill comprised of goodwill resulting from ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access Corporation, or Airborne Access, from ePLDT in 2008 and Smart's acquisition of SBI in 2004. The test for recoverability of PLDT's and Smart's goodwill was applied to the fixed line and wireless asset group, respectively, which represent 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 the companies within the Group, 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 provided 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. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines covering 73% of the total cities within the country. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which is composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries shared the same facilities to leverage on a Group perspective.

Given the significant common use of network facilities among fixed and wireless companies within the Group, Management deems that the wireless and fixed line operating segment are the lowest CGU to which goodwill is to be allocated and which are expected to benefit from the synergies.

The recoverable amount of the wireless and fixed line segments 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 three-year period from 2013 to 2015. The pre-tax discount rate applied to cash flow projections is 12% for the wireless and fixed line segments. Cash flows beyond the three-year period are determined using a 2.5% growth rate for the wireless and fixed line segments, which is the same as the long-term average growth rate for the telecommunications industry.

Based on the assessment of the value-in-use of the wireless and fixed line segment, the recoverable amount exceeded the carrying amount of the CGUs, which as a result, no impairment was recognized as at December 31, 2012 in relation to goodwill resulting from the acquisition of IPCDSI, Digitel, ePDS, Chikka, CURE, Airborne Access, PDSI and SBI. Annual impairment testing will be performed at year-end.

15. Cash and Cash Equivalents

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
		(in million pesos)	
Cash on hand and in banks (Note 27)	6,717	5,611	4,637
Temporary cash investments (Note 27)	33,416	31,550	41,420
	40,133	37,161	46,057

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 Php459 million and Php576 million for the six months ended June 30, 2013 and 2012, respectively.

16. Trade and Other Receivables

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of receivables from:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
		(in million pesos)	
Retail subscribers (Note 27)	11,631	10,568	11,302
Corporate subscribers (Notes 24 and 27)	8,513	8,100	9,200
Foreign administrations (Note 27)	6,771	4,960	4,961
Domestic carriers (Notes 24 and 27)	1,341	1,707	1,323
Dealers, agents and others (Notes 24 and 27)	3,334	4,334	4,231
	31,590	29,669	31,017
Less allowance for doubtful accounts (Notes 3, 5 and 27)	14,356	13,290	14,772
	17,234	16,379	16,245

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the Group.

Trade receivables are non interest-bearing and are generally on terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see Note 24 – *Related Party Transactions*.

See Note 24 – *Related Party Transactions – Terms and Conditions of Transactions with Related Parties* for the summary of transactions with related parties and Note 27 – *Financial Assets and Liabilities – Credit Risk* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
(in million pesos)						
June 30, 2013 (Unaudited)						
Balance at beginning of the period	13,290	6,489	6,137	99	106	459
Provisions (Notes 2, 3, 4 and 5)	1,296	900	334	3	13	46
Translation and other adjustments	159	340	(182)	7	(5)	(1)
Write-offs	(389)	(299)	(90)	-	-	-
Balance at end of the period	14,356	7,430	6,199	109	114	504
Individual impairment	9,029	2,867	5,561	109	114	378
Collective impairment	5,327	4,563	638	-	-	126
	14,356	7,430	6,199	109	114	504
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,029	2,867	5,561	109	114	378
December 31, 2012 (Audited)						
Balance at beginning of the year	14,772	7,264	6,492	199	111	706
Provisions	2,178	1,404	675	6	7	86
Business combinations and others (Note 13)	36	-	36	-	-	-
Discontinued operations	(118)	(2)	(87)	-	-	(29)
Write-offs	(3,564)	(2,700)	(531)	(95)	-	(238)
Translation and other adjustments	(14)	523	(448)	(11)	(12)	(66)
Balance at end of the year	13,290	6,489	6,137	99	106	459
Individual impairment	8,705	2,653	5,514	99	106	333
Collective impairment	4,585	3,836	623	-	-	126
	13,290	6,489	6,137	99	106	459
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,705	2,653	5,514	99	106	333

17. Inventories and Supplies

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	January 1, 2012
(in million pesos)			
Terminal and cellular phone units:			
At net realizable value	1,941	1,605	1,349
At cost	2,271	1,942	1,728
Spare parts and supplies:			
At net realizable value	395	1,372	1,606
At cost	868	1,985	2,256
Others:			
At net realizable value	465	490	872
At cost	519	494	875
Total inventories and supplies at the lower of cost or net realizable value (Notes 3, 4 and 5)	2,801	3,467	3,827

The cost of inventories and supplies recognized as expense for the six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Cost of sales	5,110	4,088
Repairs and maintenance	215	228
Write-down of inventories and supplies (Notes 3, 4 and 5)	95	225
	5,420	4,541

18. Prepayments

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)		(Audited)
	(in million pesos)		
Prepaid taxes (Note 5)	5,504	6,340	8,219
Prepaid benefit costs (Notes 3 and 25)	3,043	1,471	8,482
Prepaid selling and promotions	951	902	907
Prepaid rent – net (Note 3)	371	246	137
Prepaid fees and licenses	348	318	13
Prepaid insurance (Note 24)	123	144	156
Other prepayments	261	223	128
	10,601	9,644	18,042
Less current portion of prepayments	4,868	5,144	6,345
Noncurrent portion of prepayments	5,733	4,500	11,697

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

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

Agreement between PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund, or BTF, for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. Total prepayment under the advertising placement agreements amounted to Php893 million each as at June 30, 2013, December 31, 2012 and January 1, 2012. See *Note 24 – Related Party Transactions*.

19. Equity

PLDT's number of shares of issued and outstanding capital stock as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)		(Audited)
	(in millions)		
Authorized			
Non-Voting Serial Preferred Stock	388	808	808
Voting Preferred Stock	150	150	–
Common Stock	234	234	234
Issued			
Non-Voting Serial Preferred Stock	36	36	442
Voting Preferred Stock	150	150	–
Common Stock	219	219	217
Outstanding			
Non-Voting Serial Preferred Stock	36	36	442
Voting Preferred Stock	150	150	–
Common Stock	216	216	214
Treasury Stock			
Common Stock	3	3	3

Changes in PLDT's capital account for the six months ended June 30, 2013 and for the year ended December 31, 2012 are as follows:

	Non-Voting Serial Preferred Stock – Php10 par value per share		Voting Preferred Stock – Php1 par value per share	Total Preferred Stock		Common Stock – Php5 par value per share	
	Series A to II	IV	Voting			Number of Shares	Amount
	Number of Shares			(in millions)		Number of Shares	Amount
Authorized	88	300	150	538	Php4,025	234	Php1,170
Issued							
Balances as at January 1, 2013	–	36	150	186	Php510	219	Php1,093
Issuance	–	–	–	–	–	–	–
Conversion	–	–	–	–	–	–	–
Redemption	–	–	–	–	–	–	–
Balances as at June 30, 2013 (Unaudited)	–	36	150	186	Php510	219	Php1,093
Balances as at January 1, 2012	406	36	–	442	Php4,419	217	Php1,085
Issuance	–	–	150	150	150	2	8
Conversion	(3)	–	–	(3)	(30)	–	–
Redemption	(403)	–	–	(403)	(4,029)	–	–
Balances as at December 31, 2012 (Audited)	–	36	150	186	Php510	219	Php1,093

Preferred Stock

Non-Voting Serial Preferred Stocks

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012.

The Series HH and 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 June 30, 2013 was Php5.00 each per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the PLDT Subscriber Investment Plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series HH and 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 any time one year after subscription at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

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.

Voting Preferred Stock

On June 5, 2012, the Philippine SEC 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, or 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, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) 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 the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at June 30, 2013. See *Note 1 – Corporate Information* and *Note 26 – Provisions and Contingencies – Matters Relating to Gamboa Case*.

Redemption of Preferred Stock

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

The record date for the determination of the holders of outstanding SIP Preferred Shares subject to Redemption, or Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

PLDT has set aside Php5.9 billion (the amount required to fund the redemption price for the SIP Preferred Shares) in addition to Php2.3 billion for unclaimed dividends on SIP Preferred Shares, or a total amount of Php8.2 billion, to fund the redemption of the SIP Preferred Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of RCBC, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund or any balance thereof, in trust, for the benefit of Holders of SIP Preferred Shares, for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php63 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php321 million was withdrawn from the Trust Account, representing total payments on redemption as at June 30, 2013. The balance of the Trust Account of Php7,842 million was presented as part of the current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our statement of financial position as at June 30, 2013. See *Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – Financial Assets and Liabilities*.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007 effective on May 16, 2013. The record date for purpose of determining the holders of the outstanding Series HH shares issued in 2007 subject to redemption, or Holder of Series HH Shares issued in 2007, was fixed on February 14, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the Holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2013, or the Redemption Price of Series HH Shares issued in 2007.

PLDT expects to similarly redeem the outstanding shares of Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008 and Series II 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

Common Stock

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our core EPS, 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 June 30, 2013, December 31, 2012 and January 1, 2012.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digital.

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

Decrease in Authorized Capital Stock

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 387.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (2) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. The Certificate of Amendment and Amended Articles of Incorporation will be filed with the Philippine SEC in due course.

Dividends Declared

Our dividends declared for the six months ended June 30, 2013 and 2012 are detailed as follows:

June 30, 2013 (Unaudited)

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series HH	April 23, 2013	May 9, 2013	May 31, 2013	1.00	–
Series HH (final)	April 23, 2013	February 14, 2013	May 16, 2013	0.0027/day	–
Series II	April 23, 2013	May 9, 2013	May 31, 2013	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 29, 2013	February 28, 2013	March 15, 2013	–	12
	May 7, 2013	May 27, 2013	June 15, 2013	–	13
					25
Voting Preferred Stock	March 5, 2013	March 20, 2013	April 15, 2013	–	3
	June 14, 2013	June 28, 2013	July 15, 2013	–	3
					6
Common Stock					
Regular Dividend	March 5, 2013	March 19, 2013	April 18, 2013	60.00	12,963
Special Dividend	March 5, 2013	March 19, 2013	April 18, 2013	52.00	11,235
					24,198
Charged to retained earnings					24,229

* Dividends were declared based on total amount paid up.

June 30, 2012 (Unaudited)

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series GG	January 31, 2012	February 29, 2012	March 30, 2012	1.00	–
Series HH	March 22, 2012	April 20, 2012	May 31, 2012	1.00	–
Series II	March 22, 2012	April 20, 2012	May 31, 2012	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 31, 2012	February 20, 2012	March 15, 2012	–	12
	May 8, 2012	May 28, 2012	June 15, 2012	–	13
					25
Common Stock					
Regular Dividend	March 6, 2012	March 20, 2012	April 20, 2012	63.00	13,611
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,371
					23,982
Charged to retained earnings					24,007

* Dividends were declared based on total amount paid up.

Our dividends declared after June 30, 2013 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
Cumulative Non-Convertible Redeemable Preferred Stock Series IV*	August 7, 2013	August 23, 2013	September 15, 2013	–	12
Common Stock					
Regular Dividend	August 7, 2013	August 30, 2013	September 27, 2013	63	13,612
Charged to retained earnings					13,624

* Dividends were declared based on total amount paid up.

Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our retained earnings available for dividend declaration as at June 30, 2013:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2012 (As Adjusted – Note 2)	25,416
Effect of PAS 27 Adjustments	2,914
Parent Company's unappropriated retained earnings at beginning of the period (As Adjusted – Note 2)	28,330
Fair value adjustments of investment property resulting to gain	(535)
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(1,096)
Fair value adjustments (mark-to-market gains)	(1,132)
Unappropriated retained earnings as adjusted at beginning of the period	25,567
Parent Company's net income attributable to equity holder of PLDT	15,173
Unrealized income – net of tax during the period	
Fair value adjustments (mark-to-market gains)	(319)
	14,854
Realized income during the period	
Realized foreign exchange gains	(154)
Cash dividends declared during the period	
Preferred stocks	(31)
Common stocks	(24,198)
	(24,229)
Parent Company's unappropriated retained earnings available for dividends as at June 30, 2013 (Unaudited)	16,038

As at June 30, 2013, the consolidated unappropriated retained earnings amounted to Php20,895 million while the Parent Company's unappropriated retained earnings amounted to Php19,274 million. The difference of Php1,621 million pertains to the accumulated gains of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.

20. Interest-bearing Financial Liabilities

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of the following:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	January 1, 2012
(in million pesos)			
Long-term portion of interest-bearing financial liabilities:			
Long-term debt (Notes 4, 5, 9, 23 and 27)	87,263	102,811	91,273
Obligations under finance leases (Notes 3, 4, 5, 23 and 27)	8	10	7
	87,271	102,821	91,280
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27)	30,632	12,981	22,893
Obligations under finance leases maturing within one year (Notes 3, 4, 5, 23 and 27)	7	8	7
Notes payable (Notes 4, 5, 23 and 27)	–	–	3,109
	30,639	12,989	26,009

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 June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	January 1, 2012 (Audited)
		(in million pesos)	
Long-term debt (Note 27)	903	1,323	2,136
Obligation under finance lease	3	3	2
Unamortized debt discount at end of the period	906	1,326	2,138

The following table describes all changes to unamortized debt discount for the six months ended June 30, 2013 and for the year ended December 31, 2012.

	2013 (Unaudited)	2012 (Audited)
	(in million pesos)	
Unamortized debt discount at beginning of the period	1,326	2,138
Revaluations during the period	164	118
Additions during the period	113	124
Accretion during the period included as part of Financing costs – net – Accretion on financial liabilities (Note 5)	(697)	(1,053)
Discontinued operations (Note 2)	–	(1)
Unamortized debt discount at end of the period	906	1,326

Long-term Debt

As at June 30, 2013, December 31, 2012 and January 1, 2012, long-term debt consists of:

Description	Interest Rates	June 30, 2013		December 31, 2012		January 1, 2012	
		(Unaudited)		(Audited)			
(in millions)							
<i>U.S. Dollar Debts:</i>							
<i>Export Credit Agencies-Supported Loans:</i>							
China Export and Credit Insurance Corporation, or Sinosure	US\$ LIBOR + 0.55% to 1.80% in 2013 and 2012	US\$136	Php5,872	US\$204	Php8,363	US\$248	Php10,879
Exportkreditnamnden, or EKN	1.90% to 3.79% and US\$ LIBOR + 0.30% to 0.35% in 2013 and 2012	101	4,373	104	4,253	102	4,483
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2013 and 2012	62	2,665	67	2,771	79	3,475
Finnvera, Plc, or Finnvera	2.99% and US\$ LIBOR + 1.35% in 2013 and 2012	34	1,491	44	1,813	63	2,775
Others	US\$ LIBOR + 0.35% to 0.40% in 2013 and 2012	1	33	2	101	6	256
		US\$334	14,434	421	17,301	498	21,868
Fixed Rate Notes	8.35% in 2013 and 8.35% to 11.375% in 2012	232	10,059	232	9,544	377	16,567
<i>Term Loans:</i>							
Debt Exchange Facility	2.25% in 2013 and 2012	267	11,552	254	10,450	238	10,472
GSM Network Expansion Facilities	US\$ LIBOR + 0.42% to 1.85% in 2013 and 2012	140	6,057	172	7,041	50	2,201
Others	US\$ LIBOR + 0.42% to 1.90% in 2013 and 2012	395	17,078	194	7,962	51	2,222
		US\$1,368	59,180	US\$1,273	52,298	US\$1,214	53,330
<i>Philippine Peso Debts:</i>							
Corporate Notes	5.3300% to 7.7946% in 2013 and 5.3300% to 9.1038% in 2012		34,994		40,006		38,510
<i>Term Loans:</i>							
Unsecured Term Loans	3.9250% to 7.4292%, PDST-F + 0.30% and BSP overnight rate + 0.30% to 0.50% in 2013 and 4.9110% to 8.6271%, PDST-F + 0.30% and BSP overnight rate + 0.30% to 0.50% in 2012		23,721		23,488		22,277
Secured Term Loans	PDST-F + 1.375% in 2012		–		–		49
			58,715		63,494		60,836
Total long-term debt			117,895		115,792		114,166
Less portion maturing within one year (Note 27)			30,632		12,981		22,893
Noncurrent portion of long-term (Note 27)			Php87,263		Php102,811		Php91,273

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 June 30, 2013 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	In U.S. Dollar	In Php	In Php	In Php
			(in millions)	
2013 ⁽¹⁾	104	4,483	8,388	12,871
2014	508	21,997	1,278	23,275
2015	199	8,605	385	8,990
2016	183	7,917	11,288	19,205
2017 and onwards	394	17,040	37,417	54,457
	1,388	60,042	58,756	118,798

⁽¹⁾ July 1, 2013 through December 31, 2013.

U.S. Dollar Debts:

Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

Sinosure

On December 1, 2005, DMPI signed a US\$23.6 million Export Credit Agreement with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders, to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR. The loan is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 1, 2013. The loan was fully drawn on various dates in 2005, 2006 and 2007. The amounts of US\$2 million, or Php73 million, US\$3 million, or Php138 million, and US\$7 million, or Php296 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 4, 2006, DMPI signed a US\$12.7 million Export Credit Agreement with the Societe Generale and Calyon as the lenders, to finance the supply of the equipment and software for the expansion of its GSM services in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on October 6, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amounts of US\$3 million, or Php113 million, US\$4 million, or Php143 million, and US\$5 million, or Php229 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 1, 2006, DMPI signed a US\$12 million Buyer's Credit Agreement with ING Bank N.V., or ING Bank, as the lender, to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 1, 2014. The loan was drawn in 2006 and 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amounts of US\$1 million, or Php60 million, US\$2 million, or Php86 million, and US\$4 million, or Php153 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$21 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$6 million, or Php257 million, US\$7 million, or Php305 million, and US\$10 million, or Php457 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$12.1 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 NCR Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was fully drawn on various dates in 2008. The amounts of US\$3 million, or Php150 million, US\$4 million, or Php178 million, and US\$6 million, or Php266 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$23.8 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Core Expansion Project. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$12 million, or Php514 million, US\$14 million, or Php558 million, and US\$17 million, or Php746 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$5.5 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the supply of 3G network in the NCR. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$3 million, or Php119 million, US\$3 million, or Php129 million, and US\$4 million, or Php172 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$4.9 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php107 million, US\$3 million, or Php116 million, and US\$4 million, or Php155 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On August 14, 2009, DMPI signed a US\$24.7 million loan agreement with Credit Suisse as the lead arranger, to finance the supply of telephone equipment for the Phase 7 NCR Base Station Expansion. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was fully drawn on various dates in 2009 and 2010. The amounts of US\$18 million, or Php725 million, and US\$21 million, or Php930 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on February 14, 2013.

On August 14, 2009, DMPI signed a US\$15.9 million loan agreement with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender, to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The amounts of US\$11 million, or Php453 million, and US\$13 million, or Php581 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on February 14, 2013.

On December 16, 2009, DMPI signed a US\$50 million Buyer's Credit Agreement with China Citic Bank Corporation Ltd., or China CITIC Bank, as the original lender, to finance the equipment and related materials for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 17, 2017. The loan was drawn on various dates in 2010 in the total amount of US\$48 million. The undrawn amount of US\$2 million was cancelled. On December 9, 2011, China CITIC Bank and ING Bank signed a Transfer Certificate and Assignment of Guarantee whereby ING Bank took over the debt under the Buyers Credit Agreement. The assignment of debt was completed on December 16, 2011. The amounts of US\$31 million, or Php1,319 million, US\$34 million, or Php1,392 million, and US\$41 million, or Php1,786 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On September 15, 2010, DMPI signed a US\$117.3 million loan agreement with China Development Bank and HSBC as the lenders, to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN; (2) Phase 3 3G; and (3) Phase 8B NCR and SLZ BSS. The loan is covered by a guarantee from Sinasure. The loan is payable over seven and a half years in 15 equal semi-annual installments, with final installment on April 10, 2019. The loan was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amounts of US\$73 million, or Php3,160 million, US\$101 million, or Php4,140 million, and US\$116 million, or Php5,108 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

EKN

On April 4, 2006, DMPI signed a US\$18.7 million loan agreement with Nordea Bank AB (publ), or Nordea Bank, as the lender, to finance the supply of GSM mobile telephone equipment and related services. The loan is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amounts of US\$4 million, or Php185 million, US\$5 million, or Php220 million, and US\$7 million, or Php329 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On December 20, 2006, DMPI signed a US\$43.2 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 30, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amounts of US\$6 million, or Php276 million, US\$10 million, or Php393 million, and US\$16 million, or Php700 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On December 17, 2007, DMPI signed a US\$59.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on March 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$59 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$27 million, or Php1,169 million, US\$31 million, or Php1,248 million, and US\$38 million, or Php1,631 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On December 17, 2007, DMPI signed a US\$51.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on June 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$51.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$24 million, or Php1,015 million, US\$26 million, or Php1,084 million, and US\$32 million, or Php1,416 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 25, 2008, Smart signed a US\$22 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008, to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 10, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php103 million, US\$5 million, or Php195 million, and US\$9 million, or Php414 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 10, 2011, Smart signed a US\$49 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranche A1, Tranche A2 and Tranche B in the amounts of US\$24 million, US\$24 million and US\$1 million, respectively. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 29, 2016 for Tranche A1 and B and October 30, 2017 for Tranche A2. The loan was drawn on various dates in 2012 in the total amount of US\$33 million (US\$24 million for Tranche A1, US\$8 million for Tranche A2 and US\$1 million for Tranche B) and the remaining balance of US\$16 million for Tranche A2 was drawn on February 21, 2013. The aggregate amounts of US\$38 million, or Php1,637 million, and US\$27 million, or Php1,113 million, net of unamortized debt discount, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. Nordea Bank will subsequently assign its rights and obligations to the SEK guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. No avilment has been made on this loan as at August 7, 2013.

EKN and SEK

On April 28, 2009, DMPI signed a US\$96.6 million loan agreement with Nordea Bank and ING Bank as the lenders, to finance the supply of GSM mobile telephone equipment and related services. The loan is comprised of Tranche 1 and Tranche 2 in the amounts of US\$43 million and US\$53.6 million, respectively. The loan is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. Both tranches are payable over eight and a half years in 17 equal semi-annual installments, with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amounts of US\$62 million, or Php2,665 million, US\$67 million, or Php2,771 million, and US\$79 million, or Php3,475 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Finnvera, Plc, or Finnvera

On May 14, 2009, Smart signed a US\$50 million term loan facility agreement with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger, to finance the Phase 10 (Extension) GSM equipment and services contract. The loan is payable over five years in ten equal semi-annual installments, with final installment on July 15, 2014. The loan was fully drawn on July 15, 2009. The amounts of US\$15 million, or Php643 million, US\$20 million, or Php811 million, and US\$29 million, or Php1,290 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On October 9, 2009, Smart signed a US\$50 million term loan facility agreement with FEC guaranteed by Finnvera for 100% political and commercial risk cover to finance GSM equipment and services contracts. The loan was awarded to Citicorp as the arranger which was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual installments, with final installment on April 7, 2015. The loan was fully drawn on April 7, 2010. The amounts of US\$19 million, or Php848 million, US\$24 million, or Php1,002 million, and US\$34 million, or Php1,485 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Others – Export Credit Agencies

Compagnie Francaise d' Assurance pour le Commerce Exterieur, or COFACE

On August 18, 2005, DMPI signed a US\$19 million Export Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project. The loan is covered by a guarantee from COFACE, the export-credit agency of France. The loan is payable over seven years in 14 equal semi-annual installments with final installment on February 8, 2013. The loan was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The amount of US\$1 million, or Php53 million, and US\$4 million, or Php171 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on February 8, 2013.

Atradius N.V., or Atradius

On July 3, 2006, DMPI signed a US\$6 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network. The loan is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 27, 2014. The loan was drawn in 2006 and 2007 in the total amount of US\$5.4 million. The undrawn amount of US\$0.6 million was cancelled. The amounts of US\$1 million, or Php33 million, US\$1 million, or Php48 million, and US\$2 million, or Php85 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Fixed Rate Notes

On March 6, 1997, PLDT issued a US\$300 million 20-year non-amortizing fixed rate note with a coupon rate of 8.350% under the Indenture dated April 19, 1996 between PLDT and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) as trustee ("2017 Notes"). Proceeds from the issuance of these notes were used to finance service improvements and expansion programs. The 2017 Notes will mature on March 6, 2017. On various dates in 2008 to 2010, PLDT repurchased the 2017 Notes from the secondary market in the aggregate amount of US\$65.7 million. The amounts of US\$232 million, or Php10,059 million, US\$232 million, or Php9,544 million, and US\$232 million, or Php10,189 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 15, 2002, PLDT issued a US\$250 million ten-year non-amortizing fixed rate note with a coupon rate of 11.375% under the Indenture dated April 1, 1994 between PLDT and JP Morgan Chase Bank (formerly The Chase Manhattan Bank (National Association)) as trustee ("2012 Notes"). Proceeds from the issuance of these notes were used to refinance existing short-term and medium-term debts maturing up to 2005. On various dates in 2008 and 2009, PLDT repurchased the 2012 Notes from the secondary market in the aggregate amount of US\$104.2 million. The amounts of US\$145 million, or Php6,378 million, remained outstanding as at January 1, 2012. The 2012 Notes was paid in full on maturity date on May 15, 2012.

Term Loans

US\$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for debt and a cash payment of Smart. In particular, Smart paid a cash amount of US\$1.5 million, or Php84 million and issued new debt of US\$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million. The loan is payable in full upon maturity on June 30, 2014. The amounts of US\$267 million, or Php11,552 million, US\$254 million, or Php10,450 million, and US\$238 million, or Php10,472 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

GSM Network Expansion Facilities

On October 16, 2006, Smart signed a US\$50 million term loan facility agreement with Metropolitan Bank and Trust Company, or Metrobank, to finance the related Phase 9 GSM facility. The loan is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date, with final installment on October 10, 2012. The loan was fully drawn on October 10, 2007. The amount of US\$11 million, or Php488 million, remained outstanding as at January 1, 2012. The loan was paid in full on October 10, 2012.

On October 10, 2007, Smart signed a US\$50 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd., or Standard Chartered, as the facility agent, to finance the related Phase 10 GSM equipment and service contracts. The loan is payable over five years in ten equal semi-annual payments, with final installment on March 11, 2013. The loan was fully drawn on March 10, 2008. The amounts of US\$5 million, or Php205 million, and US\$15 million, or Php657 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 11, 2013.

On November 27, 2008, Smart signed a US\$50 million term loan facility agreement with FEC to finance the Phase 10 GSM equipment and service contracts. The loan was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered, Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments, with final installment on January 23, 2014. The loan was fully drawn on various dates in 2009. The amounts of US\$10 million, or Php432 million, US\$15 million, or Php614 million, and US\$25 million, or Php1,090 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 6, 2011, Smart signed a US\$60 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in eight equal semi-annual installments commencing on the 18th month from signing date, with final installment on June 6, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$45 million, or Php1,947 million, and US\$53 million, or Php2,157 million, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

On August 19, 2011, Smart signed a US\$50 million term loan facility agreement with FEC as the lender, to finance the supply contracts for the modernization and expansion project. The loan was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC and Mizuho Corporate Bank, Ltd. The loan is payable over five years in ten equal semi-annual installments commencing six months after August 19, 2012, with final installment on August 19, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$44 million, or Php1,881 million, and US\$50 million, or Php2,040 million, net of unamortized debt discount, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

On May 29, 2012, Smart signed a US\$50 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing on May 29, 2013, with final installment on May 29, 2017. The loan was fully drawn on various dates in 2012. The amounts of US\$44 million, or Php1,898 million, and US\$49 million, or Php2,025 million, net of unamortized debt discount, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Other Term Loans

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for its capital expenditure requirements. The loan is payable over five years in ten equal semi-annual installments. Two separate drawdowns of US\$50 million each were drawn from the facility on March 27, 2008 and April 10, 2008. The amount of US\$10 million, or Php411 million, and US\$30 million, or Php1,318 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 27, 2013.

On July 15, 2008, PLDT signed a US\$50 million term loan facility agreement with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on July 22, 2013. The loan was fully drawn on various dates in 2008. The amounts of US\$3 million, or Php127 million, US\$9 million, or Php362 million, and US\$21 million, or Php904 million, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017. Two separate drawdowns of US\$100 million and US\$50 million were drawn on May 10, 2012 and September 4, 2012, respectively. The amounts of US\$133 million, or Php5,768 million, and US\$150 million, or Php6,162 million, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date, with final installment on May 30, 2017. The loan was fully drawn on May 29, 2012. The amounts of US\$24 million, or Php1,018 million, and US\$25 million, or Php1,027 million, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

On March 23, 2012, SPi signed a US\$15 million term loan facility agreement with Security Bank to finance working capital requirements. The loan is payable over five years in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The loan was fully drawn on March 26, 2012. The amounts of US\$13 million, or Php551 million, has been presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale as at December 31, 2012. The loan was prepaid in full on April 24, 2013. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were partially drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amount of US\$200 million, or Php8,651 million, remained outstanding as at June 30, 2013.

On January 28, 2013, Smart signed a US\$35 million term loan facility agreement with China Banking Corporation to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amount of US\$35 million, or Php1,514 million, remained outstanding as at June 30, 2013.

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. No availment has been made on this loan as at August 7, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date. No availment has been made on this loan as at August 7, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility will be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date. No avallment has been made on this loan as at August 7, 2013.

Philippine Peso Debts:

Corporate Notes

Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes were used to finance its capital expenditures for network improvement and expansion program of Smart. The Series A note of Php3,800 million was paid in full on February 16, 2012. The amount of Php1,140 million, Php1,152 million and Php4,963 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued Php5,000 million unsecured fixed rate corporate notes. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network upgrade and expansion program of Smart. The notes are payable over five years with an annual amortization rate of 1% of the principal amount on the first year up to the fourth year from issue date and the balance payable upon maturity on December 13, 2013. The amount of Php4,827 million, net of unamortized debt discount, remained outstanding as at January 1, 2012 and was paid in full on March 12, 2012.

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 issuance of these notes were used to finance capital expenditures of PLDT. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on February 21, 2014. The Series B notes are payable over seven years with an amortization rate of 1% of the issue price on the fifth year and sixth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year up to the ninth year from issue date and the balance payable upon maturity on February 20, 2019. The aggregate amount of Php4,952 million remained outstanding as at January 1, 2012. The notes were prepaid in full on November 20, 2012.

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 five-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 issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The Series A notes are payable over five years with an annual amortization rate of 2% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 10, 2015. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on December 12, 2016. The Series C notes are payable in full upon maturity on December 10, 2019. The aggregate amount of Php6,781 million remained outstanding as at January 1, 2012. The notes were prepaid in full on December 10, 2012.

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. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The notes are non-amortizing and will mature on July 13, 2015. The amount of Php2,500 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012. The notes were prepaid in full on July 15, 2013.

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. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network improvement and expansion program of Smart. The notes are non-amortizing and will mature on July 13, 2015. The amounts of Php2,492 million, Php2,490 million and Php2,487 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on July 15, 2013.

Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Php2,000 million Notes Facility Agreement with BDO Private Bank, Inc. comprised of Tranche A amounting to Php1,000 million which was issued on March 16, 2011 and Tranche B amounting to Php1,000 million which was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. Proceeds from the issuance of these notes were used to finance capital expenditures for network improvement and expansion program of Smart. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The notes are payable in full, five years from their respective issue dates. The aggregate amount of Php2,000 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012.

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 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 issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 25, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 24, 2021. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on March 25, 2013.

Php5,000 Million Fixed Rate Corporate Notes

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A five-year notes amounting to Php2,795 million, Series B seven-year notes amounting to Php230 million and Series C ten-year notes amounting to Php1,975 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on November 9, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2021. The aggregate amounts of Php4,950 million remained outstanding as at June 30, 2013 and December 31, 2012 and Php5,000 million as at January 1, 2012.

Php5,500 Million Fixed Rate Corporate Notes

On March 19, 2012, Smart issued Php5,500 million fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten-year notes amounting to Php3,590 million. Proceeds from the issuance of these notes were used primarily for debt refinancing and capital expenditures of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 96% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 91% payable on March 21, 2022. The notes were partially prepaid in the amount of Php1,376 million on June 19, 2013. The aggregate amounts of Php4,036 million and Php5,464 million, net of unamortized debt discount, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Php1,500 Million Fixed Rate Corporate Notes

On July 27, 2012, PLDT issued Php1,500 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 29, 2019. The amount of Php1,500 million remained outstanding as at June 30, 2013 and December 31, 2012. The notes were partially prepaid in the amount of Php1,188 million on July 29, 2013.

Php8,800 Million Fixed Rate Corporate Notes

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated September 19, 2012, comprised of Series A seven-year notes amounting to Php4,610 million and Series B ten-year notes amounting to Php4,190 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. The notes were partially prepaid in the amount of Php2,055 million on June 21, 2013. The amounts of Php6,745 million and Php8,800 million remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Php6,200 Million Fixed Rate Corporate Notes

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issued price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019. The Series B notes are payable over ten-years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022. The amount of Php6,200 million remained outstanding as at June 30, 2013 and December 31, 2012.

Php1,376 Million Fixed Rate Corporate Notes

On June 19, 2013, Smart issued Php1,376 million fixed rate corporate notes under a Notes Agreement dated June 14, 2013, comprised of Series A five-year notes amounting to Php742 million and Series B ten-year notes amounting to Php634 million. Proceeds from the issuance of these notes were used primarily for debt refinancing of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 19, 2022. The aggregate amounts of Php1,376 million remained outstanding as at June 30, 2013.

Php2,055 Million Fixed Rate Corporate Notes

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A notes amounting to Php1,735 million and Series B notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over nine years with an annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022. The amount of Php2,055 million remained outstanding as at June 30, 2013.

Php1,188 Million Fixed Rate Corporate Notes

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the fifth year from the issue date and the balance upon maturity on July 29, 2019.

Term Loans

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Php2,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan 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 installment on November 13, 2013. The loan was fully drawn on November 13, 2008. The amounts of Php312 million, Php624 million and Php1,248 million, net of unamortized debt discount, remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a Php2,400 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 12, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php256 million, Php511 million and Php1,022 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a Php3,000 million term loan facility agreement with Union Bank of the Philippines, or Union Bank, to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date, with final installment on December 23, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php333 million, Php667 million and Php1,333 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a Php2,000 million term loan facility agreement with Philippine National Bank, or PNB, to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on December 19, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php235 million, Php470 million and Php941 million, remained outstanding as at June 30, 2013, December 31, 2012, and January 1, 2012, respectively.

Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a Php2,500 million term loan facility agreement with Banco de Oro Unibank, Inc., or BDO, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The loan was fully drawn on April 17, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 17, 2012.

Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Php1,500 million term loan facility agreement with BDO to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on May 20, 2012. The loan was fully drawn on May 20, 2009. The amount of Php1,498 million, net of unamortized debt discount, remained outstanding as at January 1, 2012 and was paid in full on May 20, 2012.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a Php2,500 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan 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 loan was fully drawn on June 28, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on September 28, 2012.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed Php1,500 million term loan facility agreement with Allied Banking Corporation to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on September 15, 2010, with final installment on September 15, 2014. The loan was fully drawn on September 15, 2009. The loan was prepaid in full on June 17, 2013. The amounts of Php618 million and Php971 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a Php500 million term loan facility agreement with Insular Life Assurance Company, Ltd. to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on July 1, 2016. The loan was fully drawn on July 1, 2009. The amount of Php500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 1, 2012.

Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Php1,000 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan 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 installment on August 1, 2014. The loan was fully drawn on August 3, 2009. The amounts of Php313 million, Php438 million and Php688 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment 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 Php706 million, Php941 million and Php1,412 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a Php1,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on December 18, 2014. The loan was fully drawn on December 18, 2009. The amounts of Php353 million, Php471 million and Php706 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Php1,500 Million Term Loan Facility

On March 15, 2011, Smart signed a Php1,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on March 22, 2016. The loan was fully drawn on March 22, 2011. The amount of Php1,500 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012.

Php2,000 Million Term Loan Facility

On March 24, 2011, Smart signed a Php2,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on March 29, 2016. The loan was fully drawn on March 29, 2011. The loan was partially prepaid on December 28, 2012 in the amount of Php200 million. The amount of Php1,800 million remained outstanding as at June 30, 2013 and December 31, 2012 and Php2,000 million as at January 1, 2012.

Php500 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php500 million term loan facility agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, to finance capital expenditures and/or refinance 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 loan was fully drawn on June 16, 2011. The loan was prepaid in full on June 17, 2013. The amount of Php500 million remained outstanding as at December 31, 2012 and January 1, 2012.

Php300 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php300 million term loan facility agreement with the Manulife 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 loan was fully drawn on April 28, 2011. The amount of Php300 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012. The loan was prepaid in full on July 29, 2013.

Php1,000 Million Term Loan Facility

On April 12, 2011, Digitel signed a Php1,000 million term loan facility agreement with Metrobank as the lender, to finance additional capital expenditure requirements. The loan is payable in full upon maturity on June 23, 2016. The loan was partially drawn on various dates in June 2011 in the aggregate amount of Php710 million and the remaining balance was subsequently drawn on June 21, 2012. The amount of Php1,000 million remained outstanding as at June 30, 2013 and December 31, 2012 and Php710 million as at January 1, 2012.

Php2,000 Million Term Loan Facility

On April 14, 2011, Digitel signed a Php2,000 million term loan facility agreement with BDO as the lender, to finance the capital expenditures and/or refinance existing loan obligations. The loan is payable in full upon maturity on May 26, 2016. The loan was drawn on various dates in 2011 in the total amount of Php1,948 million. The undrawn amount of Php52 million was cancelled. The amount of Php1,948 million remained outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012.

Php2,000 Million Term Loan Facility

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity on April 12, 2022. The loan was fully drawn on April 12, 2012. The amount of Php2,000 million each remained outstanding as at June 30, 2013 and December 31, 2012.

Php3,000 Million Term Loan Facility

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017. The loan was fully drawn on July 18, 2012. The amount of Php3,000 million remained outstanding as at June 30, 2013 and December 31, 2012.

Php2,000 Million Term Loan Facility

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity on June 27, 2017. The loan was fully drawn on June 27, 2012. The amounts of Php1,980 million and Php2,000 million remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Php1,000 Million Term Loan Facility

On June 7, 2012, Smart signed a Php1,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over five years with an annual amortization rate of 1% of the principal amount commencing on the first anniversary of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017. The loan was fully drawn on August 22, 2012. The amount of Php1,000 million remained outstanding as at June 30, 2013 and December 31, 2012.

Php1,500 Million Term Loan Facility

On June 27, 2012, DMPI signed a Php1,500 million term loan facility agreement with BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The loan is payable over seven years with an annual amortization rate of 1% of the outstanding principal amount on the first year up to the sixth year and the balance payable on June 29, 2019. The amount of Php700 million was partially drawn on June 29, 2012 and the remaining balance of Php800 million was subsequently drawn on September 24, 2012. The amount of Php1,485 million and Php1,500 million, remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Php200 Million Term Loan Facility

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on October 9, 2019. The loan was fully drawn on October 9, 2012. The amount of Php200 million remained outstanding as at June 30, 2013 and December 31, 2012.

Php1,000 Million Term Loan Facility

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on January 13, 2020. The loan was fully drawn on January 11, 2013. The amount of Php1,000 million remained outstanding as at June 30, 2013.

Php1,000 Million Term Loan Facility

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on December 5, 2022. The loan was drawn on December 3, 2012. The amount of Php1,000 million remained outstanding as at June 30, 2013 and December 31, 2012.

Php3,000 Million Term Loan Facility

On December 17, 2012, Smart signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019. The amount of Php1,000 million was partially drawn on December 20, 2012 and the remaining balance was subsequently drawn on March 15, 2013. The amounts of Php3,000 million and Php1,000 million remained outstanding as at June 30, 2013 and December 31, 2012, respectively.

Secured Term Loans

Php150 Million Term Loan Facility

On June 7, 2007, AGS obtained a Php150 million medium term loan facility agreement with BPI, 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 was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. AGS is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. AGS and the bank has agreed to the following terms: (a) pledge of AGS's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of AGS. The outstanding principal balance of the loan amounting to Php49 million as at January 1, 2012 was paid in full on June 30, 2012.

Notes Payable

Vendor Financing

On January 5, 2006, DMPI issued a US\$1.3 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on February 22, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on February 22, 2012.

On January 5, 2006, DMPI issued a US\$1.2 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on June 28, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on June 28, 2012.

The aggregate outstanding balance of trust receipts amounted to Php1,562 million as at January 1, 2012. The trust receipts of DMPI and DTPI have been fully paid as at December 31, 2012.

On April 1, 2011, SPi availed US\$9 million and US\$16 million short-term loans from BPI and Security Bank, respectively. The additional loan US\$10 million was availed last October 28, 2011 from Security Bank. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month with final installment on December 18, 2012. The loans were prepaid on various dates in 2012 in the aggregate amount of US\$31.5 million. The aggregate amounts of US\$3.5 million, or Php144 million, and US\$35 million, or Php1,537 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The remaining balance of US\$3.5 million, or Php144 million, as at December 31, 2012 was fully paid in February 2013. The December 31, 2012 outstanding balance was presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

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 50%, 45% and 47% of PLDT's total consolidated debts as at June 30, 2013, December 31, 2012 and January 1, 2012, 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. See *Note 27 – Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

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) making or permitting any material change in the character of its business; (b) disposing of all or substantially all of its assets, or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company except where PLDT is the surviving corporation.

Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

PLDT's debt instruments and guarantees for DMPI loans 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. Previously, Smart was required to comply with certain consolidated debt to consolidated equity ratio under Variable Loan Agreement 2014 debt with Marubeni Corporation as original lender and under the 2014 (A) Debt under Metrobank as Facility Agent. On August 16, 2012 and September 3, 2012, the approvals to amend the covenant from "the ratio of Consolidated Debt to Consolidated Equity" to "the ratio of Consolidated Debt to Consolidated EBITDA" were obtained. 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 the guarantors' ability to perform their obligations under its loan agreements.

DMPI's debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due under the loans, including: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if DMPI or PLDT, as guarantor, is in default under another loan agreement; (b) failure by PLDT to comply with certain financial ratio covenants; (c) occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs DMPI's and PLDT's ability to perform its obligations under its loan agreements; (d) change of control; and (e) other typical events of default including the commencement of bankruptcy, insolvency, liquidation, or winding up proceedings by DMPI.

As at June 30, 2013, we were in compliance with all of our debt covenants.

Obligations Under Finance Leases

The consolidated future minimum payments for finance leases as at June 30, 2013 are as follows:

Year	(in million pesos)
2013 ⁽¹⁾	6
2014	6
2015	5
2016 and onwards	1
Total minimum finance lease payments (Note 27)	18
Less amount representing unamortized interest	3
Present value of net minimum finance lease payments (Notes 2, 3 and 27)	15
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)	8

⁽¹⁾ July 1, 2013 through December 31, 2013.

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 and ePLDT have finance lease obligations in the aggregate amounts of Php18 million and Php21 million as at June 30, 2013 and December 31, 2012, respectively, while PLDT and SPi have finance lease obligations in the aggregate amounts of Php16 million as at January 1, 2012. 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 June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	January 1, 2012 (Audited)
		(in million pesos)	
Accrual of capital expenditures under long-term financing	16,373	19,203	20,128
Provision for asset retirement obligations (Notes 3 and 9)	2,628	2,543	2,107
Unearned revenues (Note 23)	182	174	172
Others	18	30	235
	19,201	21,950	22,642

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 six months ended June 30, 2013 and for the year ended December 31, 2012:

	2013 (Unaudited)	2012 (Audited)
		(in million pesos)
Provision for asset retirement obligations at beginning of the period	2,543	2,107
Accretion expenses (Note 5)	75	146
Additional liability recognized during the period (Note 28)	15	290
Settlement of obligations and others	(5)	–
Provision for asset retirement obligations at end of the period (Note 3)	2,628	2,543

22. Accounts Payable

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
		(in million pesos)	
Suppliers and contractors (Note 27)	21,220	26,128	25,476
Carriers (Note 27)	1,897	2,007	1,642
Taxes (Note 26)	1,693	1,421	1,555
Related parties (Notes 24 and 27)	782	668	626
Others	209	227	255
	25,801	30,451	29,554

Accounts payable are non-interest bearing and are normally settled within 180 days.

For terms and conditions relating to related parties, see *Note 24 – Related Party Transactions*.

For explanation on the PLDT Group's credit risk management processes, see *Note 27 – Financial Assets and Liabilities – Credit Risk*.

23. Accrued Expenses and Other Current Liabilities

As at June 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	
		(in million pesos)	
Accrued utilities and related expenses (Notes 24 and 27)	35,013	36,800	28,429
Accrued taxes and related expenses (Note 26)	8,597	8,281	11,817
Liability from redemption of preferred shares (Notes 19, 27 and 28)	7,842	7,884	–
Unearned revenues (Note 21)	7,453	6,291	5,664
Accrued employee benefits (Notes 2, 3, 24, 25 and 27)	5,392	5,494	4,463
Accrued interests and other related costs (Notes 20 and 27)	1,002	1,174	1,122
Mandatory tender offer option liability	–	–	4,940
Others	5,825	5,700	1,836
	71,124	71,624	58,271

Accrued utilities and related expenses pertain to cost incurred for repairs and maintenance (mostly pertaining to electricity and water consumption), selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Accrued expenses and other current liabilities are non-interest bearing and are normally settled within a year.

24. Related Party Transactions

The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at June 30, 2013. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at June 30, 2013, December 31, 2012 and January 1, 2012 transactions that have been entered into with related parties:

Classifications	Terms	Conditions	June 30,	December 31,	January 1,	
			2013	2012	2012	
			(Unaudited)	(Audited)		
(in million pesos)						
<i>Indirect investment in joint ventures through PCEV:</i>						
Meralco	Accrued expenses and other current liabilities (Note 23)	Electricity charges – immediately upon receipt of invoice	Unsecured; no impairment	313	266	271
		Pole rental – 45 days upon receipt of billing	Unsecured; no impairment	7	12	6
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 23)	Outside and inside plant – 20 days upon receipt of invoice	Unsecured; no impairment	–	2	–
<i>Indirect investment in associate through ACeS Philippines:</i>						
AIL	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of billing	Unsecured; no impairment	43	43	147
<i>Transactions with major stockholders, directors and officers:</i>						
Asia Link B.V., or ALBV	Accounts payable (Note 22)	15 days from end of quarter	Unsecured; no impairment	333	252	234
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 23)	1 st month of each quarter; non-interest bearing	Unsecured; no impairment	45	29	29
NTT Communications	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured; no impairment	13	18	12
NTT DOCOMO	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured; no impairment	9	8	8
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 23)	30 days; non-interest bearing	Unsecured; no impairment	1	2	–
Malayan Insurance Co., Inc., or Malayan	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of invoice	Unsecured; no impairment	1	1	1
<i>Others:</i>						
Various	Trade and other receivables (Note 16)	30 days upon receipt of billing	Unsecured; no impairment	235	244	281

The following table provides the summary of transactions for the six months ended June 30, 2013 and 2012 in relation with the table above for the transactions that have been entered into with related parties.

Classifications	2013	2012	
	(Unaudited)		
(in million pesos)			
<i>Indirect investment in joint ventures through PCEV:</i>			
Meralco	Repairs and maintenance	1,480	1,605
	Rent	138	140
MIESCOR	Repairs and maintenance	22	18
	Construction-in-progress	15	16
<i>Indirect investment in associate through ACeS Philippines:</i>			
AIL	Cost of sales	27	44
<i>Transactions with major stockholders, directors and officers:</i>			
ALBV	Professional and other contracted services	142	188
Malayan	Insurance and security services	126	120
NTT DOCOMO	Professional and other contracted services	35	27
NTT World Engineering Marine Corporation	Repairs and maintenance	18	7
NTT Worldwide Telecommunications Corporation	Selling and promotions	2	8
NTT Communications	Professional and other contracted services	35	35
	Rent	1	6
<i>Others:</i>			
Various	Revenues	179	126

a. *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, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php1,480 million and Php1,605 million for the six months ended June 30, 2013 and 2012, respectively. Under these agreements, the outstanding utilities payable, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php313 million, Php266 million and Php271 million as at June 30, 2013, December 31, 2012 and January 1, 2012, 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, which was presented as part of rent in our consolidated income statements, amounted to Php138 million and Php140 million for the six months ended June 30, 2013 and 2012, respectively. Under these agreements, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php7 million, Php12 million and Php6 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares* for additional transactions involving Meralco.

b. *Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, covering the periods from November 25, 2011 until December 31, 2014, renewable upon mutual agreement by both parties. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable works, civil and electrical engineering works and subscriber line installation and maintenance that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php9 million and Php7 million for the six months ended June 30, 2013 and 2012, respectively. Total amount capitalized to property, plant and equipment amounted to Php1 million and Php2 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php0.3 million and Php2 million as at June 30, 2013 and December 31, 2012, respectively.

PLDT also has an existing agreement with MIESCOR for the provision of work for outside plant rehabilitation and related activities. Under the agreement, MIESCOR is responsible for the preventive and corrective maintenance of cables and cabinets in the areas awarded to them. The original contract covers the period from January 1, 2011 up to December 31, 2012, however, both parties mutually agreed to an extension until March 31, 2014.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php13 million and Php11 million for the six months ended June 30, 2013 and 2012, respectively. Total amount capitalized to property, plant and equipment amounted to Php14 million for each of the six months ended June 30, 2013 and 2012. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil as at June 30, 2013, December 31, 2012 and January 1, 2012.

c. *Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA, which was presented as part of cost of sales in our consolidated income statements, amounted to Php27 million and Php44 million for the six months ended June 30, 2013 and 2012, respectively. Under the Amended ATPA, the outstanding obligations of PLDT, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php43 million, Php43 million and Php147 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 5 – Income and Expenses – Cost of Sales*.

d. *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 June 30, 2013, December 31, 2012 and January 1, 2012 and for the six months ended June 30, 2013 and 2012 are as follows:

1. *Agreement between Smart and ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which expired on February 23, 2012 was renewed until February 23, 2016 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Total service fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php142 million and Php188 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php333 million, Php252 million and Php234 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

2. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *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. The fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php18 million and Php7 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php45 million as at June 30, 2013 and Php29 million each as at December 31, 2012 and January 1, 2012;
- *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. The fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php35 million each for the six months ended June 30, 2013 and 2012. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php12 million, Php17 million and Php12 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively;

- *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. The fees under this agreement, which was presented as part of rent in our consolidated income statements, amounted to Php1 million and Php6 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million each as at June 30, 2013 and December 31, 2012 and nil as at January 1, 2012; and
- *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. The fees under this agreement, which was presented as part of selling and promotions in our consolidated income statements, amounted to Php2 million and Php8 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million, Php2 million and nil as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

3. *Advisory Service Agreement between NTT DOCOMO and PLDT*

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php35 million and Php27 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million as at June 30, 2013 and Php8 million each as at December 31, 2012 and January 1, 2012.

4. *Agreements Relating to Insurance Companies*

PLDT has insurance policies with Malayan wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php126 million and Php120 million for the six months ended June 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position, amounted to Php1 million each as at June 30, 2013, December 31, 2012 and January 1, 2012. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at June 30, 2013, December 31, 2012 and January 1, 2012.

5. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO.* Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition.* NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- *Business Cooperation.* PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- *Additional Rights of NTT DOCOMO.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:
 1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
 2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
 3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
 4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at June 30, 2013, December 31, 2012 and January 1, 2012.

- *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.

e. *Others*

- a. Telecommunications services provided by PLDT and certain of its subsidiaries to various related parties

PLDT and certain of its subsidiaries provide telephone and data communication services to various related parties at arm's length similar to transactions with other customers. The revenues under these services amounted to Php179 million and Php126 million for the six months ended June 30, 2013 and 2012, respectively. The outstanding receivables of PLDT and certain of its subsidiaries, which was presented as part of trade and other receivables in our consolidated statements of financial position, from these services amounted to Php235 million, Php244 million and Php281 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

See Note 10 – Investments in Associates and Joint Ventures and Deposit – Deposit for Future PDRs Subscription and Note 18 – Prepayments – Agreement between PLDT and Smart with TV5 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 six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Short-term employee benefits	435	390
Post-employment benefits (Note 25)	16	23
Other long-term employee benefits (Note 25)	246	172
Total compensation paid to key officers of the PLDT Group	697	585

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 expenses during the reporting period related to key management personnel.

25. Employee Benefits

Pension

Defined Benefit Pension Plans

We have defined benefit pension plans, operating under the legal name “The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company” and covering substantially all of our permanent and regular employees, excluding those employees of Smart and certain subsidiaries, which require contributions to be made to a separate administrative fund.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at June 30, 2013 and December 31, 2012 are as follows:

	(in million pesos)
Present value of defined benefit obligations as at December 31, 2012	17,456
Fair value of plan assets as at December 31, 2012	18,435
Surplus status – net	(979)
Net actuarial pension benefit costs during the period (Note 3)	483
Translation and other adjustments	28
Contributions	(1,996)
Accrued benefit costs as at June 30, 2013 (Note 3)	(2,464)
Accrued benefit costs (Note 3)	579
Prepaid benefit costs as at June 30, 2013 (Notes 3 and 18)	(3,043)

Net pension benefit costs for the six months ended June 30, 2013 and 2012 were computed as follows:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Components of net pension benefit costs:		
Current service costs	463	441
Interest costs (income)	20	(235)
Net periodic benefit income (Notes 3 and 5)	483	206

The weighted average assumptions used to determine pension benefits as at June 30, 2013 are as follows:

Average remaining working years of covered employee	19
Rate of increase in compensation	6%
Discount rate	5%

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 overall expected rate of return on assets is determined based on the market expectations prevailing, applicable to the period over which the obligation is to be settled.

PLDT's Retirement Plan

The Board of Trustees, which manages the beneficial trust fund, is composed of: (1) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives or employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the year to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the Philippine SEC. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

For the six months ended June 30, 2013, PLDT contributed a total of Php1,991 million to the beneficial trust fund.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at June 30, 2013 and December 31, 2012:

	2013 (Unaudited)	2012 (Audited)
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in:</i>		
Unlisted equity investments	12,777	14,930
Shares of stock	2,925	3,056
Mutual funds	54	120
Government securities	48	48
Investment properties	9	8
Total noncurrent financial assets	15,813	18,162
Current Financial Assets		
Cash and cash equivalents	359	181
Receivables	9	3
Total current financial assets	368	184
Total PLDT's Plan Assets	16,181	18,346

Investment in shares of stocks is valued using the latest bid price at reporting date. Investments in mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values. The fair values of these investments can be classified as Level 1 instruments based on the definitions in *PFRS 13*. Investment in unlisted equity investments are valued using discounted cash flow analysis and can be classified as Level 3.

Unlisted Equity Investments

As at June 30, 2013 and December 31, 2012, this account consists of:

	% of Ownership		Amounts	
	2013 (Unaudited)	2012 (Audited)	2013 (Unaudited)	2012 (Audited)
	(in million pesos)			
MediaQuest	100%	100%	12,296	14,468
Tahanan Mutual Building and Loan Association, or TMBLA (net of subscriptions payable of Php32 million)	100%	100%	284	271
BTF Holdings, Inc., or BTFHI	100%	100%	157	152
Superior Multi Parañaque Homes, Inc., or SMPHI	100%	100%	39	38
Bancholders, Inc., or Bancholders	100%	100%	1	1
Superior Parañaque Homes, Inc., or SPHI	100%	100%	-	-
			12,777	14,930

Investment in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

The Board of Trustees of the Beneficial Trust Fund approved to make additional investments in MediaQuest amounting to Php750 million each on November 5, 2012 and January 25, 2013 to fund the latter's operational and capital expenditure requirements. Subsequently, on March 1, 2013, the Board of Directors of MediaQuest approved its application of the additional investment to additional paid in capital on the existing subscribed shares of stock.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. On the same date, MediaQuest Board of Directors approved the investment in PDRs by ePLDT. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. An additional deposit of Php1 billion each was received on July 6, 2012 and August 9, 2012. The Board of Directors confirmed that the issuance of the Cignal TV PDRs will give ePLDT a 40% economic interest in Cignal TV.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs for the Php3.6 billion planned investment by ePLDT with Satventures common shares as the underlying shares, which will give ePLDT a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. On the same date, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors also approved the issuance of additional PDRs by MediaQuest for the planned investment of ePLDT with Hastings, common shares as underlying shares at a total subscription price of Php1.95 billion. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. As a result of this investment, ePLDT will have a 100% economic interest in Hastings. From March to July 2013, MediaQuest received deposits for future PDRs subscription aggregating to Php3.1 billion in relation with the Satventures PDRs. See Note 10 – Investments in Associates and Joint Ventures and Deposit – Deposit for Future PDRs Subscription.

As at August 7, 2013, the PDRs have not yet been issued.

Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in "unlisted equity investments, deposits on future stock subscriptions and advances" in the total financial assets table. The cumulative change in the fair market value of this investment amounted to Php204 million and Php191 million as at June 30, 2013 and December 31, 2012, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Dividend receivable amounted to Php2 million each as at June 30, 2013 and December 31, 2012.

Investment in Shares of Stocks

As at June 30, 2013 and December 31, 2012, this account consists of:

	2013	2012
	(Unaudited)	(Audited)
	(in million pesos)	
Common shares	2,565	2,696
Preferred shares	360	360
	2,925	3,056

Common shares pertain to shares listed in the PSE with fair value of Php2,565 million, which include shares of PSE with fair value of Php2,163 million, shares of PLDT with fair value of Php78 million and other shares with fair value of Php324 million as at June 30, 2013. Total gain from investment in shares of PLDT for the six months ended June 30, 2013 amounted to Php13 million comprising of Php3 million in dividend income and Php10 million unrealized gain from increase in market value of investment.

Common shares pertain to shares listed in the PSE with fair value of Php2,696 million, which include shares of PSE with fair value of Php2,286 million, shares of PLDT with fair value of Php67 million and other shares with fair value of Php343 million as at December 31, 2012. Total gain from investment in shares of PLDT for the year ended December 31, 2012 amounted to Php5 million comprising of Php5 million in dividend income and Php159 thousand unrealized gain from increase in market value of investment.

Preferred shares represent 300 million shares of preferred shares of PLDT at Php10 par value as at June 30, 2013 and December 31, 2012, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividend earned on this investment amounted to Php24 million each for the six months ended June 30, 2013 and 2012.

Mutual Funds

Investment in mutual funds include various U.S. dollar and Euro denominated equity and fixed income funds, which aims to out-perform benchmarks in various international indices as part of its investment strategy.

Government Securities

Investment in government securities include treasury bills and fixed-term treasury notes bearing interest ranging from 5.88% to 7%. These securities are fully guaranteed by the government of the Republic of the Philippines.

Investment Properties

Investment properties include two condominium units (bare, separate 127 and 58 square meter units) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City.

The allocation of the fair value of the assets for the PLDT pension plan as at June 30, 2013 and December 31, 2012 are as follows:

	2013 (Unaudited)	2012 (Audited)
Investments in listed and unlisted equity securities	97%	98%
Temporary cash investments	2%	1%
Investments in mutual funds	1%	1%
	100%	100%

Defined Contribution Plan

Smart's Retirement Plan

Smart and certain of its subsidiaries contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at June 30, 2013 and December 31, 2012, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, 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 following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at June 30, 2013 and December 31, 2012:

	2013	2012
	(Unaudited)	(Audited)
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in:</i>		
Domestic fixed income	1,661	1,280
Domestic equities	352	513
International equities	231	350
International fixed income	226	175
Total noncurrent financial assets	2,470	2,318
Current Financial Assets		
Cash and cash equivalents	13	12
Receivables	449	15
Total current financial assets	462	27
Total Financial Assets	2,932	2,345

⁽¹⁾ Carrying value includes accumulated equity on investees.

Investment in Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities, corporate bonds and notes, special savings, debt securities and other deposit products of the banks. The investments under this category earned between 1.5% and 7.8% interest for the six months ended June 30, 2013 and between 6.2% to 9.1% interest in 2012.

Investment in Domestic Equity

Investments in domestic equities include common shares and convertible preferred shares listed in the PSE. These investments earn on stock price appreciation and dividend payments.

Investment in International Equity

This category consists of international mutual funds being managed by ING International.

Investment in International Fixed Income

Investments in international fixed income include foreign currency denominated bonds, such as mutual funds and unit investment trust funds. The Philippine sovereign debt, the only interest-bearing investment in this category, earned 2.8% interest for the six months ended June 30, 2013 and 5% interest in 2012.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at June 30, 2013 and December 31, 2012 is as follows:

	2013	2012
	(Unaudited)	(Audited)
Investments in debt and fixed income securities	57%	56%
Investments in listed and unlisted equity securities	25%	37%
Others	18%	7%
	100%	100%

Smart and certain of its subsidiaries contributed Php151 million to the fund in 2012. Approximately Php208 million are expected to be contributed to the fund in 2013.

Pension Benefit Costs

Net consolidated pension benefit costs (income) for the six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Expense recognized for defined benefit plans	483	206
Expense recognized for defined contribution plans	100	67
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	583	273

Other Long-term Employee Benefits

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the new LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the six months ended June 30, 2013 and 2012 amounted to Php740 million and Php755 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,217 million and Php1,490 million as at June 30, 2013 and December 31, 2012, respectively. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Estimation of Pension Benefit Costs and Other Employee Benefits* and *Note 5 – Income and Expenses – Compensation and Employee Benefits*.

Net periodic benefit costs computed for the six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Current service costs	710	745
Interest costs	21	6
Net actuarial loss	9	4
Net periodic benefit costs (Note 3)	740	755

26. Provisions and Contingencies

Supervision and Regulatory Fees, or SRF, due to the NTC

Since 1994, following the rejection of PLDT’s formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had 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 position, which was upheld by the Court of Appeals, but, as set forth below, was 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 the actual amount paid (inclusive of premiums) for the “capital stock subscribed or paid” and not on par or market value. 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 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 its assessment until the resolution of the 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 based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC’s assessments not only the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT 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 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 Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various local government units. PLDT has paid a total amount of Php1,141 million as at June 30, 2013 for local franchise tax covering prior periods up to June 30, 2013.

As at June 30, 2013, PLDT has no contested local government unit, or LGU, assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. Its Motion for Reconsideration having been 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 on 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. In a resolution dated February 9, 2012, the Court of Appeals dismissed the case for failure of the City of Tuguegarao and its Treasurer to file their Appellants' Brief. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. The City of Tuguegarao filed its Answer with Motion to Dismiss claiming that the RTC of the City of Makati does not have jurisdiction over the case. Both parties have filed their respective Memorandum on the issue of Jurisdiction. A judicial dispute resolution, or JDR, conference was set by the court after the parties failed to settle the case in the mediation proceedings. Due to the failure of the City of Tuguegarao to appear on the JDR conference last May 15, 2012, the court transmitted the case to the Office of the Clerk of Court of the City of Makati for re-raffling in accordance with the JDR guidelines. The case was raffled to Branch 132 of Makati City and a Pre-Trial Conference, which was scheduled on October 19, 2012, was postponed by the court due to the Motion for Resolution on the previously filed Motion to Dismiss by Tuguegarao City on the ground of lack of jurisdiction. In an order dated October 12, 2012, the court granted the Motion to Dismiss for lack of jurisdiction. PLDT filed a Motion for Reconsideration while the City of Tuguegarao has filed its corresponding Comment. In a Resolution dated January 18, 2013, the court denied the Motion for Reconsideration filed by PLDT. On March 8, 2013, PLDT filed a Petition for Review on the said dismissal of the case before the CTA. Acting on the Petition for Review filed by PLDT, the Second Division of the CTA issued a Resolution dated March 13, 2013 ordering the Respondents City of Tuguegarao and City Treasurer to file their Comment on the Petition for Review filed by PLDT. In a Resolution dated July 2, 2013 and received on July 12, 2013, the CTA ordered both parties to submit its respective Memorandum. PLDT has already submitted its Memorandum together with its Motion to Admit Memorandum and submit case for Resolution after Respondent City of Tuguegarao and City Treasurer failed to file their Comment on the Petition for Review filed by PLDT.

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 the 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 August 2009, the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued deficiency local tax assessments, which Smart protested. On August 3, 2010, the City of Makati issued a Notice of Distraint and Levy. Smart filed on September 1, 2010 an Appeal before the RTC of the City of Makati. After several hearings, Smart and the City of Makati entered into a compromise agreement which was submitted to the court for judgment. On January 20, 2012, the RTC of the City of Makati issued its Judgment finding the compromise agreement meritorious and ordered both parties to comply with the terms and conditions of the agreement. With the compliance to the terms and conditions, the audit of Smart's local tax liabilities by the City of Makati was terminated.

In the cases of *Smart Communications, Inc. vs. City of Davao* (July 21, 2009) and *City of Iloilo vs. Smart Communications* (July 1, 2009), the Supreme Court held that Smart is liable to pay the local franchise tax to the City of Davao and City of Iloilo. Several cities and provinces have begun discussions with Smart on the settlement of alleged local franchise tax with their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the decisions on the Cities of Iloilo and Davao and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

Meanwhile, the Province of Cagayan also issued tax assessment for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160, or R.A. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. On April 30, 2012, the RTC rendered a decision giving the petition due course and the assailed tax assessment nullified and set aside. The Province of Cagayan was directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then filed a Petition for Review before the Court of Tax Appeals in the City of Quezon on June 19, 2012, appealing the RTC Decision dated April 30, 2012. In a Resolution dated August 29, 2012, the Court of Tax Appeals directed the parties to submit their respective Memorandum, which it reiterated in its Resolution dated September 17, 2012. In a resolution of the First Division of the Court of Tax Appeals dated November 14, 2012, it ruled that the petition is now submitted for decision.

Smart's Real Property Tax Assessment

In *Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City*, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

On August 16, 2010, the Court of Appeals issued an Entry of Judgment confirming that the November 26, 2008 Resolution had become final and executory on December 22, 2008, and it was recorded in the book of Entries of Judgments.

PCEV's Local Franchise Tax Assessment

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled "*Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto*" (*PCEV 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, Republic Act. No. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the local government code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *PCEV vs. City of Makati* case.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax. However, in the case of *Digitel vs. City Government of Batangas* (G.R. No. 156040, December 11, 2008), the Supreme Court ruled that Digitel's real properties used in its telecommunications business are subject to the real property tax. On June 16, 2009, the Supreme Court denied Digitel's Motion for Reconsideration. Digitel has already fully settled its obligation with the City Government of Batangas and in an order dated January 8, 2012, the case has been terminated by the Regional Trial Court, Branch 8 of Batangas City.

DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato* (Civil Case No. 2010-345, February 2010), DMPI filed a Petition for prohibition and mandamus against the City of Cotabato due to their threats to close its cell sites due to real property tax delinquencies. DMPI is awaiting confirmation from external counsel and there are still ongoing negotiations for the reassessment of the valuation of DMPI sites.

In the *DMPI vs. City of Davao* (Special Civil Case No. 33,823-11, March 2011), DMPI's Petition for Prohibition and Mandamus sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted, being that it is exempt under its BOI registration and prevailing laws. The case is in pre-trial stage.

In the *DMPI vs. City Government of Malabon* (Special Civil Action 11-011-MN, November 2011), DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a Temporary Restraining Order to defer the sale. There is an ongoing mediation and the parties are exploring the possibility of settling amicably.

DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo* (Special Civil Action Case No. Br. 20-542, September 2011), DMPI filed a petition for Prohibition and Mandamus with Preliminary Injunction and Temporary Restraining Order against the Tower Fee Ordinance of the Municipality of San Mateo. The parties have already submitted their respective memorandum and the case is already submitted for resolution.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the Court of Appeals after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200,000 per cell site per annum. DMPI has already filed its comment to the petition.

DMPI vs. City of Trece Martires (Civil Case No. TMSCA-004-10, February 2010) – The Company petitioned to declare void the Trece Martires ordinance of imposing tower fee of Php150,000 for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

Globe Telecoms, et al. vs. City of Lipa (Civil Case No. 2006-0568, 2006) – Globe filed a Protest of Assessment questioning the act of the LGU in assessing tower fees for its sites amounting to Php105,000 per year. Smart and the Company/Parent Company filed their respective Interventions joining the suit. The case is still in its pre-trial stage and the parties are waiting for receipt of a notice from the court to submit memoranda whether the tower ordinance is a tax or a regulatory measure.

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 Gamboa Case

In the Gamboa Case, the Supreme Court in its decision dated June 28, 2011, or the Gamboa Case Decision, 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, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)”. The Gamboa Case Decision reversed earlier opinions issued by the Philippine SEC 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. Several Motions for Reconsideration of the Gamboa Case Decision were filed by the parties. On October 18, 2012, the Gamboa Case Decision became final and executory.

While PLDT was not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case “to apply this definition of the term ‘capital’ in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law.”

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 preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 12, 2012, the Board of Directors of PLDT approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a Filipino corporation. On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, or the Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of the Voting Preferred Shares, PLDT’s foreign ownership decreased from 58.4% of outstanding Common Stock as at October 15, 2012 to 34.5% of outstanding Voting Stocks (Common Stock and Voting Preferred Stock) as at October 16, 2012.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: “All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.” PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of July 2013, PLDT’s foreign ownership was 32.87% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 18.07% of its total outstanding capital stock.

On June 10, 2013, PLDT was served a copy of a Petition for Certiorari under Rule 65 of the Revised Rules of Court, or the Petition, filed with the Supreme Court by Jose M. Roy III as petitioner against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT as respondents. The Petition primarily questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine company pursuant to the Gamboa Case Decision and Section 11, Article XII of the Constitution. Per the Philippine SEC Guidelines, the Philippine nationality requirement of Section 11, Article XII of the Constitution is met if at least 60% of: (a) the outstanding voting stocks; and (b) the outstanding capital stock of the company is owned by Filipinos.

The Petition admits that if the Philippine SEC Guidelines were to be followed, PLDT would be compliant with the nationality requirement of the Philippine Constitution. However, the Petition claims that the Philippine SEC Guidelines do not conform to the letter and spirit of the Constitution and the Gamboa Case Decision supposedly requiring the application of the 60%-40% ownership requirement in favor of Filipino citizens separately to each class of shares, whether common, preferred non-voting, preferred voting or any other class of shares. The Petition also claims that the PLDT Beneficial Trust Fund does not satisfy the effective Filipino-control test for purposes of incorporating BTFHI which acquired the 150 million Voting Preferred Shares.

PLDT has yet to file its Comments to the Petition before the Supreme Court.

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. See Note 3 – *Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments*.

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 – Financial Instruments*.

The following table sets forth our financial assets and financial liabilities held as at June 30, 2013, December 31, 2012 and January 1, 2012:

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for- sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
(in million pesos)							
Assets as at June 30, 2013 (Unaudited)							
Noncurrent:							
Available-for-sale financial investments	-	-	-	-	5,693	-	5,693
Investment in debt securities and other long-term investments	303	370	-	-	-	-	673
Derivative financial assets	-	-	-	38	-	-	38
Advances and other noncurrent assets – net of current portion	1,394	-	-	-	-	-	1,394
Current:							
Cash and cash equivalents	40,133	-	-	-	-	-	40,133
Short-term investments	2,824	-	561	-	-	-	3,385
Trade and other receivables	17,234	-	-	-	-	-	17,234
Current portion of investment in debt securities and other long-term investments	-	91	-	-	-	-	91
Current portion of advances and other noncurrent assets	7,873	-	-	1	-	-	7,874
Total assets	69,761	461	561	39	5,693	-	76,515
Liabilities as at June 30, 2013 (Unaudited)							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	-	-	-	-	-	87,271	87,271
Derivative financial liabilities	-	-	2,114	-	-	-	2,114
Customers' deposits	-	-	-	-	-	2,550	2,550
Deferred credits and other noncurrent liabilities	-	-	-	-	-	16,379	16,379
Current:							
Accounts payable	-	-	-	-	-	24,104	24,104
Accrued expenses and other current liabilities	-	-	-	-	-	54,662	54,662
Current portion of interest-bearing financial liabilities	-	-	-	-	-	30,639	30,639
Dividends payable	-	-	-	-	-	899	899
Derivative financial liabilities	-	-	106	448	-	-	554
Total liabilities	-	-	2,220	448	-	216,504	219,172
Net assets (liabilities)	69,761	461	(1,659)	(409)	5,693	(216,504)	(142,657)
Assets as at December 31, 2012 (As Adjusted – Note 2)							
Noncurrent:							
Available-for-sale financial investments	-	-	-	-	5,651	-	5,651
Investment in debt securities and other long-term investments – net of current portion	205	-	-	-	-	-	205
Advances and other noncurrent assets – net of current portion	962	-	-	-	-	-	962
Current:							
Cash and cash equivalents	37,161	-	-	-	-	-	37,161
Short-term investments	24	-	550	-	-	-	574
Trade and other receivables	16,379	-	-	-	-	-	16,379
Current portion of investment in debt securities and other long-term investments	-	150	-	-	-	-	150
Current portion of advances and other noncurrent assets	7,915	-	-	-	-	-	7,915
Total assets	62,646	150	550	-	5,651	-	68,997

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
(in million pesos)							
Liabilities as at December 31, 2012 (As Adjusted – Note 2)							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	102,821	102,821
Derivative financial liabilities	–	–	2,802	–	–	–	2,802
Customers' deposits	–	–	–	–	–	2,529	2,529
Deferred credits and other noncurrent liabilities	–	–	–	–	–	19,224	19,224
Current:							
Accounts payable	–	–	–	–	–	29,027	29,027
Accrued expenses and other current liabilities	–	–	–	–	–	56,662	56,662
Current portion of interest-bearing financial liabilities	–	–	–	–	–	12,989	12,989
Dividends payable	–	–	–	–	–	827	827
Derivative financial liabilities	–	–	70	348	–	–	418
Total liabilities	–	–	2,872	348	–	224,079	227,299
Net assets (liabilities)	62,646	150	(2,322)	(348)	5,651	(224,079)	(158,302)
Assets as at January 1, 2012 (As Adjusted – Note 2)							
Noncurrent:							
Available-for-sale financial investments	–	–	–	–	7,181	–	7,181
Investment in debt securities and other long-term investments – net of current portion	–	150	–	–	–	–	150
Advances and other noncurrent assets – net of current portion	1,147	–	–	–	–	–	1,147
Current:							
Cash and cash equivalents	46,057	–	–	–	–	–	46,057
Short-term investments	24	–	534	–	–	–	558
Trade and other receivables	16,245	–	–	–	–	–	16,245
Current portion of investment in debt securities and other long-term investments	–	358	–	–	–	–	358
Current portion of advances and other noncurrent assets	18	–	366	–	–	–	384
Total assets	63,491	508	900	–	7,181	–	72,080
Liabilities as at January 1, 2012 (As Adjusted – Note 2)							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	91,280	91,280
Derivative financial liabilities	–	–	2,235	–	–	–	2,235
Customers' deposits	–	–	–	–	–	2,272	2,272
Deferred credits and other noncurrent liabilities	–	–	–	–	–	20,343	20,343
Current:							
Accounts payable	–	–	–	–	–	27,982	27,982
Accrued expenses and other current liabilities	–	–	–	–	–	40,459	40,459
Current portion of interest-bearing financial liabilities	–	–	–	–	–	26,009	26,009
Dividends payable	–	–	–	–	–	2,583	2,583
Derivative financial liabilities	–	–	922	2	–	–	924
Total liabilities	–	–	3,157	2	–	210,928	214,087
Net assets (liabilities)	63,491	508	(2,257)	(2)	7,181	(210,928)	(142,007)

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at June 30, 2013, December 31, 2012 and January 1, 2012:

	Carrying Value			Fair Value		
	June 30, 2013	December 31, 2012	January 1, 2012	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	(As Adjusted – Note 2)	(Unaudited)	(As Adjusted – Note 2)	(As Adjusted – Note 2)
(in million pesos)						
Noncurrent Financial Assets						
<i>Available-for-sale financial investments:</i>						
Listed equity securities	107	89	81	107	89	81
Unlisted equity securities	5,586	5,562	7,100	5,586	5,562	7,100
<i>Investment in debt securities and other long-term investments – net of current portion</i>	673	205	150	695	219	158
<i>Derivative financial assets:</i>						
Interest rate swap	38	–	–	38	–	–
<i>Advances and other noncurrent assets – net of current portion</i>	1,394	962	1,147	1,286	912	1,061
Total noncurrent financial assets	7,798	6,818	8,478	7,712	6,782	8,400

	Carrying Value			Fair Value		
	June 30, 2013	December 31, 2012	January 1, 2012	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	(As Adjusted – Note 2)	(Unaudited)	(As Adjusted – Note 2)	(As Adjusted – Note 2)
(in million pesos)						
Current Financial Assets						
<i>Cash and cash equivalents:</i>						
Cash on hand and in banks	6,717	5,611	4,637	6,717	5,611	4,637
Temporary cash investments	33,416	31,550	41,420	33,416	31,550	41,420
Short-term investments	3,385	574	558	3,385	574	558
<i>Trade and other receivables – net:</i>						
Foreign administrations	6,662	4,861	4,762	6,662	4,861	4,762
Retail subscribers	4,201	4,079	4,038	4,201	4,079	4,038
Corporate subscribers	2,314	1,963	2,708	2,314	1,963	2,708
Domestic carriers	1,227	1,601	1,212	1,227	1,601	1,212
Dealers, agents and others	2,830	3,875	3,525	2,830	3,875	3,525
<i>Derivative financial assets:</i>						
Interest rate swap	1	–	–	1	–	–
Long-term currency swap	–	–	356	–	–	356
Forward foreign exchange contracts	–	–	10	–	–	10
<i>Current portion of investment in debt securities and other long-term investments</i>						
	91	150	358	91	150	358
<i>Current portion of advances and other noncurrent assets</i>						
	7,873	7,915	18	7,873	7,915	18
Total current financial assets	68,717	62,179	63,602	68,717	62,179	63,602
Total Financial Assets	76,515	68,997	72,080	76,429	68,961	72,002
Noncurrent Financial Liabilities						
<i>Interest-bearing financial liabilities:</i>						
Long-term debt – net of current portion	87,263	102,811	91,273	93,651	110,431	95,052
Obligations under finance leases	8	10	7	8	9	7
<i>Derivative financial liabilities:</i>						
Long-term currency swap – net of current portion	2,028	2,681	2,090	2,028	2,681	2,090
Interest rate swap – net of current portion	86	121	145	86	121	145
Customers' deposits	2,550	2,529	2,272	2,051	2,200	1,772
Deferred credits and other noncurrent liabilities	16,379	19,224	20,343	15,325	18,176	19,420
Total noncurrent financial liabilities	108,314	127,376	116,130	113,149	133,618	118,486
Current Financial Liabilities						
<i>Accounts payable:</i>						
Suppliers and contractors	21,220	26,128	25,476	21,220	26,128	25,476
Carriers	1,897	2,007	1,642	1,897	2,007	1,642
Related parties	782	668	626	782	668	626
Others	205	224	238	205	224	238
<i>Accrued expenses and other current liabilities:</i>						
Utilities and related expenses	34,627	36,435	28,123	34,627	36,435	28,123
Liability from redemption of preferred shares	7,842	7,884	–	7,842	7,884	–
Employee benefits	5,366	5,469	4,438	5,366	5,469	4,438
Interests and other related costs	1,002	1,174	1,122	1,002	1,174	1,122
Mandatory tender offer option liability	–	–	4,940	–	–	4,940
Others	5,825	5,700	1,836	5,825	5,700	1,836
<i>Interest-bearing financial liabilities:</i>						
Current portion of long-term debt	30,632	12,981	22,893	30,632	12,981	22,893
Obligations under finance leases	7	8	7	7	8	7
Notes payable	–	–	3,109	–	–	3,109
Dividends payable	899	827	2,583	899	827	2,583
<i>Derivative financial liabilities:</i>						
Bifurcated embedded derivatives	437	–	–	437	–	–
Current portion of interest rate swap	72	70	89	72	70	89
Forward foreign exchange contracts	45	–	1	45	–	1
Equity forward sale contract	–	348	–	–	348	–
Current portion of long-term currency swap	–	–	834	–	–	834
Total current financial liabilities	110,858	99,923	97,957	110,858	99,923	97,957
Total Financial Liabilities	219,172	227,299	214,087	224,007	233,541	216,443

The following table sets forth the consolidated offsetting of financial assets and liabilities recognized as at June 30, 2013:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
(in million pesos)			
June 30, 2013 (Unaudited)			
Noncurrent Assets			
<i>Derivative financial instruments</i>			
Interest rate swap	169	131	38
Current Financial Assets			
<i>Trade and other receivables</i>			
Foreign administrations	8,552	1,890	6,662
Corporate subscribers	2,337	23	2,314
Domestic carriers	11,506	10,279	1,227
<i>Derivative financial instruments</i>			
Interest rate swap	49	48	1
Total	22,613	12,371	10,242
Noncurrent Financial Liabilities			
<i>Derivative financial instruments</i>			
Interest rate swap – net of current portion	133	47	86
Current Financial Liabilities			
<i>Accounts payable</i>			
Suppliers and contractors	21,243	23	21,220
Carriers	4,113	2,216	1,897
<i>Derivative financial instruments</i>			
Current portion of interest rate swap	57	(14)	71
Total	25,546	2,272	23,274

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the statement of financial position.

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 June 30, 2013, December 31, 2012 and January 1, 2012. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	June 30, 2013			December 31, 2012			January 1, 2012		
	(Unaudited)			(Audited)					
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Total	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Total
(in million pesos)									
Noncurrent Financial Assets									
Available-for-sale financial investments – Listed equity securities	107	–	107	89	–	89	81	–	81
Derivative financial assets	–	38	38	–	–	–	–	–	–
Current Financial Assets									
Short-term investments	–	561	561	–	550	550	–	534	534
Derivative financial assets	–	1	1	–	–	–	–	366	366
Total	107	600	707	89	550	639	81	900	981
Noncurrent Financial Liabilities									
Derivative financial liabilities	–	2,114	2,114	–	2,802	2,802	–	2,235	2,235
Current Financial Liabilities									
Derivative financial liabilities	–	554	554	–	418	418	–	924	924
Total	–	2,668	2,668	–	3,220	3,220	–	3,159	3,159

⁽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 June 30, 2013, December 31, 2012 and January 1, 2012, we have no financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3). There were also no transfers into and out of Level 3 during the period.

As at June 30, 2013, December 31, 2012 and January 1, 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	Fair Value Assumptions
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.
Fixed Rate Loans: U.S. dollar notes Other loans in all other currencies	Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing, or PDST-F, 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:

Forward foreign exchange contracts, foreign currency swaps and interest rate 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.

Equity forward sale contract: The fair values were adjusted as the present value of estimated future cash flows using equity prices and Philippine peso interest rates as at valuation date.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of proprietary listed shares, were determined using quoted prices. For investment where there is no active market, investments 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, trade and other receivables, accounts payable, accrued expenses and other current 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. Equity forward sale contract was designated as cash flow hedge by ePLDT as at June 30, 2013, December 31, 2012 and January 1, 2012 and forward foreign exchange contracts were designated as cash flow hedges by SPi and SPi CRM as at January 1, 2012. Interest rate swap agreements were designated as cash flow hedges by PLDT and Smart as at June 30, 2013.

The table below sets out the information about our derivative financial instruments as at June 30, 2013, December 31, 2012 and January 1, 2012:

	Maturity	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)		January 1, 2012 (Audited)	
		Notional	Mark-to-market Gains (Losses)	Notional	Mark-to-market Gains (Losses)	Notional	Mark-to-market Gains (Losses)
(in millions)							
Transactions not designated as hedges:							
PLDT							
Long-term currency swaps	2017	US\$202	(Php2,028)	US\$202	(Php2,681)	US\$222	(Php2,090)
	2012	-	-	-	-	100	(834)
	2012	-	-	-	-	60 ⁽¹⁾	356
Forward foreign exchange contracts	2013	51	(45)	-	-	-	-
			(2,073)		(2,681)		(2,568)
Digitel Group							
Interest rate swaps	2017	50	(147)	57	(191)	69	(234)
Cash flow hedges:							
PLDT							
Interest rate swaps	2018	80	18	-	-	-	-
				-	-	-	-
Smart							
Interest rate swaps	2016	83	6	-	-	-	-
	2017	44	4	-	-	-	-
			28				
ePLDT Group							
Equity forward sale contract	2013	118 shares	(437)	211 shares	(348)	-	-
SPi Group							
Forward foreign exchange contracts	2012	-	-	-	-	57	10
	2013	-	-	-	-	4	(1)
			-		-		9
Net liabilities			(Php2,629)		(Php3,220)		(Php2,793)

⁽¹⁾ Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement matured in 2012.

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)		January 1, 2012 (Audited)	
	(in million pesos)					
Presented as:						
Current assets	1		-		-	
Noncurrent assets	38		-		366	
Noncurrent liabilities	(2,114)		(2,802)		(2,235)	
Current liabilities	(554)		(418)		(924)	
Net liabilities	(2,629)		(3,220)		(2,793)	

Movements of mark-to-market losses for the six months ended June 30, 2013 and for the year ended December 31, 2012 are summarized as follows:

	2013 (Unaudited)		2012 (Audited)	
	(in million pesos)			
Net mark-to-market losses at beginning of the period	(3,220)		(2,793)	
Gains (losses) on derivative financial instruments	594		(1,661)	
Effective portion recognized in the profit or loss for the cash flow hedges	178		418	
Settlements, accretions and conversions	46		785	
Net gains (losses) on cash flow hedges charged to other comprehensive income	(227)		92	
Discontinued operations	-		(61)	
Net mark-to-market losses at end of the period	(2,629)		(3,220)	

Analysis of gains (losses) on derivative financial instruments for the six months ended June 30, 2013 and 2012 are as follows:

	2013	2012
	(Unaudited)	(As Adjusted – Note 2)
	(in million pesos)	
Gains (losses) on derivative financial instruments (Note 4)	594	(264)
Hedge cost	(146)	(173)
Net gains (losses) on derivative financial instruments (Note 4)	448	(437)

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 qualify for hedge accounting.

Interest Rate Swaps

On May 27, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on June 6, 2013) and in exchange, will pay a fixed rate of 1.945%.

On June 6, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.385%.

On July 13, 2013, PLDT entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.25%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at June 30, 2013, the mark-to-market gains of the interest swap with aggregate notional amount of US\$80 million and recognized in other comprehensive income amounted to Php18 million. There was no ineffective portion in the fair value of these instruments recognized in the consolidated statement of income for the six months ended June 30, 2013.

Long-term 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. 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 Php49.85 and Php49.80 for the six months ended June 30, 2013 and 2012, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.42% per annum for the six months ended June 30, 2013 and 2012.

On various dates from August to November 2012, the long-term principal only-currency swap agreements maturing in 2017 were partially terminated, with a total aggregate settlement of Php256 million. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$202 million as at June 30, 2013 and December 31, 2012. The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php2,028 million and Php2,681 million as at June 30, 2013 and December 31, 2012, respectively. The mark-to-market losses of the 2012 and 2017 swaps with notional amounts of US\$100 million and US\$222 million, respectively, amounted to Php834 million and Php2,090 million, respectively, as at January 1, 2012.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only-currency swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cash flows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php356 million as at January 1, 2012. These overlay swaps matured on May 15, 2012, where PLDT received proceeds amounting to Php565 million.

Forward Foreign Exchange Contracts

On various dates in 2013, PLDT entered into short-term U.S. dollar forward foreign exchange sale contracts to hedge proceeds from the US\$300 million Loan Facility. The total forward foreign exchange contracts amounted to US\$76 million with U.S. dollar forward sale average exchange rate of Php40.80 to Php43.69 resulting to total mark-to-market losses of Php52 million for the six months ended June 30, 2013. The outstanding notional amount under these contracts amounted to US\$51 million with mark-to-market losses of Php45 million as at June 30, 2013. There were no outstanding forward foreign exchange contracts as at December 31, 2012 and January 1, 2012.

Digitel Group

On October 7, 2008, DMPi entered into an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. The outstanding notional amounts under this agreement amounted to US\$27 million, US\$31 million and US\$37 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. The mark-to-market losses amounted to Php74 million, Php102 million and Php125 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On October 7, 2008, DMPi entered into an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. The outstanding notional amounts under this agreement amounted to US\$23 million, US\$26 million and US\$32 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. The mark-to-market losses amounted to Php73 million, Php89 million and Php109 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Smart

On May 8, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$45 million to hedge its interest rate exposure on the outstanding balance of the US\$60 million Loan Facility maturing in June 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate of equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on December 6, 2013) and in exchange, will pay a fixed rate of 1.527%.

On May 9, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$37.5 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in August 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate of equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on February 19, 2014) and in exchange, will pay a fixed rate of 1.4275%.

On May 16, 2013, Smart entered into a four-year interest rate swap agreement with a total notional amount of US\$44.4 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in May 2017 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate of equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on November 29, 2013) and in exchange, will pay a fixed rate of 1.77%.

On July 18, 2013, Smart entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the US\$120 million Loan Facility maturing in June 2018 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate of equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on March 25, 2014) and in exchange, will pay a fixed rate of 2.36%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at June 30, 2013, the mark-to-market gains of the interest swap with aggregate notional amount of US\$127 million and recognized in other comprehensive income amounted to Php10 million. There was no ineffective portion in the fair value of these instruments recognized in the consolidated statement of income for the six months ended June 30, 2013.

ePLDT Group

On July 10, 2012, ePLDT entered into an equity forward sale contract amounting to Php4,310 million in order to hedge its exposure to the volatility of the share price of Philweb when it sold its investment in 398 million common shares of Philweb at a certain price in four tranches, which is expected to be completed by the end of 2013. The first and second tranches were transacted on July 13, 2012 and October 22, 2012, respectively. Each tranche was for 93.5 million common shares and for a total purchase price of Php1 billion each. On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the third tranche, or Php1 billion. The fourth tranche will be paid on December 13, 2013 for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the fourth tranche. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations* and *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investment of ePLDT in Philweb*. The mark-to-market losses recognized in the profit or loss at the inception of this contract amounted to Php727 million. The gains and losses from the inception of this contract will be recognized in cumulative translation adjustments and are expected to be realized in profit or loss upon occurrence of each tranche. The mark-to-market loss transferred from cumulative translation adjustment to profit or loss in relation with the first and second tranches amounted to Php387 million and was recognized as a reduction on gain of sale of Philweb shares presented as part of other income in our consolidated income statements. The mark-to-market losses as at June 30, 2013 for the remaining tranche amounted to Php437 million, with Php212 million recognized in cumulative translation adjustments, Php727 million recognized in profit or loss in 2012, representing losses at the inception of the contract, and Php12 million recognized in profit or loss, representing the ineffective portion of the loss in the fair value of the contract as at June 30, 2013. The mark-to-market losses as at December 31, 2012 for the remaining two tranches amounted to Php348 million, with Php44 million recognized in cumulative translation adjustments, Php727 million recognized in profit or loss, representing losses at the inception of the contract, and Php3 million recognized in profit or loss, representing the ineffective portion of the loss in the fair value of the contract as at December 31, 2012.

PGIH

On various dates in 2013, PGIH entered into short-term U.S. dollar forward foreign exchange sale contracts to hedge proceeds from the sale of BPO segment. The total forward foreign exchange contracts amounted to US\$122 million with U.S. dollar forward sale average exchange rate of Php41.33 resulting to total mark-to-market losses of Php24 million as at June 30, 2013. There were no outstanding forward foreign exchange contracts as at June 30, 2013.

SPi Group

In February and March 2011, SPi CRM and SPi entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses, respectively, maturing March 2011 up to October 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged.

On December 6, 2011, SPi CRM changed its functional currency from Philippine peso to U.S. dollar resulting for all its outstanding hedges to become ineffective starting from that date and mark-to-market gains and losses thereafter are recognized in profit or loss. The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges with notional amounts of US\$24 million and US\$29 million, respectively, amounted to Php9 million as at January 1, 2012. In January 2012, SPi CRM pre-terminated all outstanding ineffective hedges.

In March 2012, SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of its monthly peso denominated expenses maturing from June 29, 2012 to December 26, 2013. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly peso expenses hedged.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges and presented as part of derivative financial liabilities under liabilities directly associated with assets classified as held-for-sale with notional amount of US\$55 million, amounted to Php61 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts were no longer included in our consolidated financial statements since April 30, 2013, which is the closing date of the sale of our BPO segment.

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

Our exposure to liquidity risk refers to the risk that our financial liabilities are not reviewed in a timely manner and that our working capital requirements and planned capital expenditures are not met.

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 undrawn credit facilities amounting to US\$396 million, or Php17,109 million, as at June 30, 2013 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 Php40,133 million and Php3,385 million, respectively, as at June 30, 2013. 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 June 30, 2013, December 31, 2012 and January 1, 2012:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in million pesos)					
June 30, 2013 (Unaudited)					
<i>Loans and receivables:</i>	77,512	75,703	1,107	542	160
Advances and other noncurrent assets	9,379	7,873	1,107	239	160
Cash equivalents	33,416	33,416	-	-	-
Short-term investments	2,824	2,824	-	-	-
Investment in debt securities and other long-term investments	303	-	-	303	-
Retail subscribers	11,631	11,631	-	-	-
Corporate subscribers	8,513	8,513	-	-	-
Foreign administrations	6,771	6,771	-	-	-
Domestic carriers	1,341	1,341	-	-	-
Dealers, agents and others	3,334	3,334	-	-	-
<i>Available-for-sale financial investments</i>	5,693	-	-	-	5,693
<i>Financial instruments at FVPL:</i>	561	561	-	-	-
Short-term investments	561	561	-	-	-
<i>HTM investments:</i>	461	91	-	220	150
Investment in debt securities and other long-term investments	461	91	-	220	150
Total	84,227	76,355	1,107	762	6,003
December 31, 2012 (Audited)					
<i>Loans and receivables:</i>	70,437	69,158	686	453	140
Advances and other noncurrent assets	8,989	7,915	686	248	140
Cash equivalents	31,550	31,550	-	-	-
Short-term investments	24	24	-	-	-
Investment in debt securities and other long-term investments	205	-	-	205	-
Retail subscribers	10,568	10,568	-	-	-
Corporate subscribers	8,100	8,100	-	-	-
Foreign administrations	4,960	4,960	-	-	-
Domestic carriers	1,707	1,707	-	-	-
Dealers, agents and others	4,334	4,334	-	-	-
<i>Available-for-sale financial investments</i>	5,651	-	-	-	5,651
<i>Financial instruments at FVPL:</i>	550	550	-	-	-
Short-term investments	550	550	-	-	-
<i>HTM investments:</i>	150	150	-	-	-
Investment in debt securities and other long-term investments	150	150	-	-	-
Total	76,788	69,858	686	453	5,791
January 1, 2012 (Audited)					
<i>Loans and receivables:</i>	73,626	72,479	899	201	47
Advances and other noncurrent assets	1,165	18	899	201	47
Cash equivalents	41,420	41,420	-	-	-
Short-term investments	24	24	-	-	-
Retail subscribers	11,302	11,302	-	-	-
Corporate subscribers	9,200	9,200	-	-	-
Foreign administrations	4,961	4,961	-	-	-
Domestic carriers	1,323	1,323	-	-	-
Dealers, agents and others	4,231	4,231	-	-	-
<i>Available-for-sale financial investments</i>	7,181	-	-	-	7,181
<i>Financial instruments at FVPL:</i>	534	534	-	-	-
Short-term investments	534	534	-	-	-
<i>HTM investments:</i>	508	358	150	-	-
Investment in debt securities and other long-term investments	508	358	150	-	-
Total	81,849	73,371	1,049	201	7,228

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at June 30, 2013, December 31, 2012 and January 1, 2012:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in million pesos)				
June 30, 2013 (Unaudited)					
<i>Debt</i> ⁽¹⁾ :	142,003	21,188	49,064	37,329	34,422
Principal	118,798	20,861	36,755	32,688	28,494
Interest	23,205	327	12,309	4,641	5,928
<i>Lease obligations</i> :	17,599	7,490	3,604	3,047	3,458
Operating lease	17,581	7,486	3,590	3,047	3,458
Finance lease	18	4	14	-	-
<i>Unconditional purchase obligations</i> ⁽²⁾	231	64	44	43	80
<i>Other obligations</i> :	95,960	74,310	11,069	8,573	2,008
Derivative financial liabilities ⁽³⁾ :	3,123	550	1,070	1,503	-
Long-term foreign currency options	2,443	-	964	1,479	-
Equity forward sale contract	438	438	-	-	-
Interest rate swap	197	67	106	24	-
Forward foreign exchange contracts	45	45	-	-	-
Various trade and other obligations:	92,837	73,760	9,999	7,070	2,008
Suppliers and contractors	37,593	21,220	9,368	7,005	-
Utilities and related expenses	29,847	29,699	122	21	5
Dividends	899	899	-	-	-
Liability from redemption of preferred shares	7,842	7,842	-	-	-
Employee benefits	5,378	5,378	-	-	-
Customers' deposits	2,550	-	503	44	2,003
Carriers	1,897	1,897	-	-	-
Others	6,831	6,825	6	-	-
Total contractual obligations	255,793	103,052	63,781	48,992	39,968
December 31, 2012 (As Adjusted – Note 2)					
<i>Debt</i> ⁽¹⁾ :	144,467	3,981	56,353	48,417	35,716
Principal	117,115	3,641	41,469	42,492	29,513
Interest	27,352	340	14,884	5,925	6,203
<i>Lease obligations</i> :	13,655	7,059	3,641	1,832	1,123
Operating lease	13,634	7,057	3,623	1,831	1,123
Finance lease	21	2	18	1	-
<i>Unconditional purchase obligations</i> ⁽²⁾	413	167	246	-	-
<i>Other obligations</i> :	105,492	80,443	12,505	10,515	2,029
Derivative financial liabilities ⁽³⁾ :	3,507	418	871	2,218	-
Long-term currency swap	2,968	-	770	2,198	-
Equity forward sale contract	348	348	-	-	-
Interest rate swap	191	70	101	20	-
Various trade and other obligations:	101,985	80,025	11,634	8,297	2,029
Suppliers and contractors	45,331	26,128	10,942	8,261	-
Utilities and related expenses	31,305	31,098	202	5	-
Liability from redemption of preferred shares	7,884	7,884	-	-	-
Employee benefits	5,488	5,488	-	-	-
Customers' deposits	2,529	-	469	31	2,029
Carriers	2,007	2,007	-	-	-
Dividends	827	827	-	-	-
Others	6,614	6,593	21	-	-
Total contractual obligations	264,027	91,650	72,745	60,764	38,868
January 1, 2012 (As Adjusted – Note 2)					
<i>Debt</i> ⁽¹⁾ :	142,271	16,378	62,213	39,476	24,204
Principal	119,410	15,348	48,141	33,971	21,950
Interest	22,861	1,030	14,072	5,505	2,254
<i>Lease obligations</i> :	17,826	6,352	5,324	2,998	3,152
Operating lease	17,810	6,349	5,317	2,992	3,152
Finance lease	16	3	7	6	-
<i>Unconditional purchase obligations</i> ⁽²⁾	674	279	263	132	-
<i>Other obligations</i> :	91,828	66,223	14,976	7,072	3,557
Derivative financial liabilities ⁽³⁾ :	3,789	589	1,026	701	1,473
Long-term currency swap	3,552	500	907	673	1,472
Interest rate swap	237	89	119	28	1
Various trade and other obligations:	88,039	65,634	13,950	6,371	2,084
Suppliers and contractors	45,604	25,476	13,761	6,367	-
Utilities and related expenses	23,839	23,834	5	-	-
Employee benefits	4,452	4,452	-	-	-
Dividends	2,583	2,583	-	-	-
Customers' deposits	2,272	-	184	4	2,084
Carriers	1,642	1,642	-	-	-
Others	7,647	7,647	-	-	-
Total contractual obligations	252,599	89,232	82,776	49,678	30,913

⁽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 – Air Time Purchase Agreement between PLDT and AIL Related Party Agreements.

⁽³⁾ Gross liabilities before any offsetting application.

Debt

See Note 20 – *Interest-bearing Financial Liabilities – Long-term Debt* 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. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(Audited)	
		(in million pesos)	
Within one year	7,566	7,136	6,423
After one year but not more than five years	6,557	5,375	8,235
More than five years	3,458	1,123	3,152
	17,581	13,634	17,810

Finance Lease Obligations

See Note 20 – *Interest-bearing Financial Liabilities – Obligations under Finance Leases* for the detailed discussion of our long-term finance lease obligations.

Unconditional Purchase Obligations

See Note 24 – *Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* 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 Php231 million, Php413 million and Php674 million as at June 30, 2013, December 31, 2012 and January 1, 2012, 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 and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php92,837 million, Php101,985 million and Php88,039 million as at June 30, 2013, December 31, 2012 and January 1, 2012, 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 Php118 million, Php342 million and Php913 million as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. These commitments will expire within one year.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

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 sale and 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 conversion 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 June 30, 2013, December 31, 2012 and January 1, 2012:

	June 30, 2013		December 31, 2012		January 1, 2012	
	(Unaudited)		(Audited)			
	U.S. Dollar	Php ⁽¹⁾	U.S. Dollar	Php ⁽²⁾	U.S. Dollar	Php ⁽³⁾
	(in millions)					
Noncurrent Financial Assets						
Investment in debt securities and other long-term investments	7	303	5	205	–	–
Derivative financial assets	–	38	–	–	–	–
Advances and other noncurrent assets	1	33	1	28	2	83
Total noncurrent financial assets	8	374	6	233	2	83
Current Financial Assets						
Cash and cash equivalents	171	7,380	128	5,267	165	7,248
Short-term investments	34	1,470	14	562	12	540
Trade and other receivables – net	213	9,199	179	7,360	215	9,445
Derivative financial assets	–	1	–	–	8	366
Total current financial assets	418	18,050	321	13,189	400	17,599
Total Financial Assets	426	18,424	327	13,422	402	17,682
Noncurrent Financial Liabilities						
Interest-bearing financial liabilities – net of current portion	1,148	49,657	1,058	43,442	906	39,806
Derivative financial liabilities	49	2,114	68	2,802	51	2,235
Total noncurrent financial liabilities	1,197	51,771	1,126	46,244	957	42,041
Current Financial Liabilities						
Accounts payable	188	8,112	165	6,762	198	8,688
Accrued expenses and other current liabilities	122	5,261	166	6,832	129	5,677
Current portion of interest-bearing financial liabilities	223	9,630	221	9,065	349	15,328
Derivative financial liabilities	3	117	2	70	21	924
Total current financial liabilities	536	23,120	554	22,729	697	30,617
Total Financial Liabilities	1,733	74,891	1,680	68,973	1,654	72,658

⁽¹⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.26 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at June 30, 2013.

⁽²⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php41.08 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2012.

⁽³⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at January 1, 2012.

As at August 6, 2013, the Philippine peso-U.S. dollar exchange rate was Php43.51 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php327 million as at June 30, 2013.

Approximately 50%, 45% and 47% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at June 30, 2013, December 31, 2012 and January 1, 2012, respectively. Consolidated foreign currency-denominated debt increased to Php59,180 million as at June 30, 2013 from Php52,298 million as at December 31, 2012 and Php53,330 million as at January 1, 2012. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts was US\$202 million as at June 30, 2013 and December 31, 2012 and US\$262 million as at January 1, 2012. Consequently, the unhedged portion of our consolidated debt amounts was approximately 43% (or 35%, net of our consolidated U.S. dollar cash balances) and 38% (or 33%, net of our consolidated U.S. dollar cash balances) as at June 30, 2013 and December 31, 2012, respectively and 37% (or 30%, net of our consolidated U.S. dollar cash balances) as at January 1, 2012.

Approximately, 21% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the six months ended June 30, 2013 as compared with approximately 22% for the six months ended June 30, 2012. Our consolidated expenses denominated in U.S. dollars and/or linked to U.S. dollars was approximately 12% for the six months ended June 30, 2013 as compared with approximately 13% for the six months ended June 30, 2012. In this respect, the lower weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso depreciated by 5.31% against the U.S. dollar to Php43.26 to US\$1.00 as at June 30, 2013 from Php41.08 to US\$1.00 as at December 31, 2012. As at June 30, 2012, the Philippine peso had appreciated by 3.74% against the U.S. dollar to Php42.28 to US\$1.00 from Php43.92 to US\$1.00 as at December 31, 2011. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php1,922 million for the six months ended June 30, 2013, while net consolidated foreign exchange gains amounted to Php1,606 million for the six months ended June 30, 2012. 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 September 30, 2013. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 0.25% as compared to the exchange rate of Php43.26 to US\$1.00 as at June 30, 2013. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 0.25% as at June 30, 2013, with all other variables held constant, profit after tax for the six months ended June 30, 2013 would have been approximately Php53 million higher/lower and our consolidated stockholders' equity as at June 30, 2013 would have been approximately Php52 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

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 June 30, 2013, December 31, 2012 and January 1, 2012. Financial instruments that are not subject to interest rate risk were not included in the table.

As at June 30, 2013 (Unaudited)

	In U.S. Dollars					Total	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years					In U.S. Dollar	In Php
Assets:											
<i>Investment in Debt Securities and Other Long-term Investments</i>											
U.S. Dollar	-	7	-	-	-	7	303	-	303	7	316
Interest rate	-	3.5000% to 4.0000%	-	-	-	-	-	-	-	-	-
Philippine Peso	2	5	3	-	-	10	461	-	461	11	470
Interest rate	2.500%	4.250%	4.837%	-	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	31	-	-	-	-	31	1,332	-	1,332	31	1,332
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	107	-	-	-	-	107	4,637	-	4,637	107	4,637
Interest rate	0.0200% to 3.1250%	-	-	-	-	-	-	-	-	-	-
Other Currencies	3	-	-	-	-	3	144	-	144	3	144
Interest rate	0.0100% to 0.5000%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	131	-	-	-	-	131	5,670	-	5,670	131	5,670
Interest rate	0.2500% to 4.0000%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	642	-	-	-	-	642	27,746	-	27,746	642	27,746
Interest rate	0.7500% to 5.0000%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	34	-	-	-	-	34	1,476	-	1,476	34	1,476
Interest rate	0.3230%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	44	-	-	-	-	44	1,910	-	1,910	44	1,910
Interest rate	2.5060%	-	-	-	-	-	-	-	-	-	-
	994	12	3	-	-	1,009	43,679	-	43,679	1,010	43,701
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	-	-	234	-	234	10,133	74	10,059	273	11,822
Interest rate	-	-	-	8.3500%	-	-	-	-	-	-	-
U.S. Dollar Fixed Loans	283	63	21	33	3	403	17,439	645	16,794	404	17,472
Interest rate	2.2500% to 3.7900%	1.9000% to 3.9550%	1.9000% to 3.9550%	1.9000% to 3.9550%	3.9550%	-	-	-	-	-	-
Philippine Peso	150	18	131	277	656	1,232	53,300	41	53,259	1,319	57,063
Interest rate	5.3938% to 6.8615%	3.9250% to 6.5000%	3.9250% to 6.5481%	3.9250% to 6.5000%	3.9250% to 6.3462%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar	23	348	169	211	-	751	32,470	143	32,327	751	32,470
Interest rate	0.3000% to 0.6000% over LIBOR + 1.8500%	0.3000% to 1.9000% over LIBOR	0.3000% to 1.9000% over LIBOR	0.3000% to 1.9000% over LIBOR	-	-	-	-	-	-	-
Philippine Peso	26	31	69	-	-	126	5,456	-	5,456	126	5,456
Interest rate	PHP PDST-F + 0.3000%	PHP PDST-F + 0.3000%	BSP overnight rate + 0.3000% to 0.5000%	-	-	-	-	-	-	-	-
	482	460	390	755	659	2,746	118,798	903	117,895	2,873	124,283

As at December 31, 2012 (Audited)

	In U.S. Dollars					Total	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years				In U.S. Dollar	In Php	
(in millions)											
Assets:											
<i>Investment in Debt Securities and</i>											
<i>Other Long-term Investments</i>											
U.S. Dollar	-	-	-	5	-	5	205	-	205	5	219
Interest rate	-	-	-	4.0000%	-	-	-	-	-	-	-
Philippine Peso	4	-	-	-	-	4	150	-	150	4	154
Interest rate	7.0000%	-	-	-	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	37	-	-	-	-	37	1,529	-	1,529	37	1,529
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	84	-	-	-	-	84	3,445	-	3,445	84	3,445
Interest rate	0.1000% to 3.0000%	-	-	-	-	-	-	-	-	-	-
Other Currencies	4	-	-	-	-	4	161	-	161	4	161
Interest rate	0.0100% to 0.7500%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	74	-	-	-	-	74	3,062	-	3,062	74	3,062
Interest rate	0.2500% to 4.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	694	-	-	-	-	694	28,488	-	28,488	694	28,488
Interest rate	1.1250% to 5.0000%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	14	-	-	-	-	14	557	-	557	14	557
Interest rate	9.1730%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	-	-	-	-	-	-	17	-	17	-	17
Interest rate	3.0000%	-	-	-	-	-	-	-	-	-	-
	911	-	-	5	-	916	37,614	-	37,614	916	37,632
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	-	-	234	-	234	9,623	79	9,544	283	11,644
Interest rate	-	-	-	8.3500%	-	-	-	-	-	-	-
U.S. Dollar Fixed Loans	5	337	23	32	9	406	16,674	1,143	15,531	410	16,843
Interest rate	3.7900%	1.9000% to 3.9550%	1.9000% to 3.9550%	1.9000% to 3.9550%	3.9550%	-	-	-	-	-	-
Philippine Peso	-	35	132	522	686	1,375	56,469	45	56,424	1,475	60,576
Interest rate	-	4.9110% to 7.7946%	4.9110% to 7.7946%	4.9110% to 7.7946%	4.9110% to 7.7946%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar	27	312	127	175	23	664	27,278	55	27,223	664	27,278
Interest rate	0.4000% to 0.5000% over LIBOR	0.3000% to 1.9000% over LIBOR	0.3000% to 1.9000% over LIBOR	0.3000% to 1.9000% over LIBOR	1.8000% over LIBOR	-	-	-	-	-	-
Philippine Peso	55	45	-	72	-	172	7,071	1	7,070	172	7,071
Interest rate	PHP PDST-F + 0.3000%	PHP PDST-F + 0.3000%	-	BSP overnight rate + 0.3000% to 0.5000%	-	-	-	-	-	-	-
	87	729	282	1,035	718	2,851	117,115	1,323	115,792	3,004	123,412

As at January 1, 2012 (Audited)

	In U.S. Dollars					Total	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years				In U.S. Dollar	In Php	
(in millions)											
Assets:											
<i>Investment in Debt Securities and</i>											
<i>Other Long-term Investments</i>											
Philippine Peso	8	4	-	-	-	12	508	-	508	12	516
Interest rate	6.8750%	7.0000%	-	-	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	14	-	-	-	-	14	626	-	626	14	626
Interest rate	0.0100% to 0.7663%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	66	-	-	-	-	66	2,886	-	2,886	66	2,886
Interest rate	0.0100% to 3.1500%	-	-	-	-	-	-	-	-	-	-
Other Currencies	5	-	-	-	-	5	218	-	218	5	218
Interest rate	0.0100% to 2.0000%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	133	-	-	-	-	133	5,824	-	5,824	133	5,824
Interest rate	0.2500% to 1.7000%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	810	-	-	-	-	810	35,596	-	35,596	810	35,596
Interest rate	1.0000% to 4.8750%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	12	-	-	-	-	12	540	-	540	12	540
Interest rate	3.1020%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	-	-	-	-	-	-	18	-	18	-	18
Interest rate	3.5000%	-	-	-	-	-	-	-	-	-	-
	1,048	4	-	-	-	1,052	46,216	-	46,216	1,052	46,224
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	146	-	-	-	234	380	16,691	124	16,567	427	18,740
Interest rate	11.3750%	-	-	-	8.3500%	-	-	-	-	-	-
U.S. Dollar Fixed Loans	-	53	302	28	21	404	17,738	1,900	15,838	359	15,770
Interest rate	-	2.9900% to 3.9550%	2.2500% to 3.9550%	2.9900% to 3.9550%	3.9550%	-	-	-	-	-	-
Philippine Peso	121	137	122	590	187	1,157	50,818	38	50,780	1,194	52,454
Interest rate	5.6250% to 6.5708%	5.4692% to 8.4346%	5.4692% to 9.1038%	5.4963% to 9.1038%	5.4963% to 9.1038%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar	11	242	73	94	58	478	20,996	71	20,925	476	20,925
Interest rate	US\$ LIBOR + 0.7500%	US\$ LIBOR + 0.3000% to 1.8500%	US\$ LIBOR to 1.8500%	US\$ LIBOR + 0.3000% to 1.8000%	US\$ LIBOR + 0.3000% to 1.8000%	-	-	-	-	-	-
Philippine Peso	1	147	20	61	-	229	10,059	3	10,056	229	10,056
Interest rate	PDST-F + 1.3750%	PDST-F + 0.3000%	PDST-F + 0.3000%	BSP overnight rate + 0.3000% to 0.5000%	-	-	-	-	-	-	-
<i>Short-term Debt</i>											
<i>Notes Payable</i>											
U.S. Dollar	35	-	-	-	-	35	1,537	-	1,537	35	1,537
Interest rate	Bank's prime rate	-	-	-	-	-	-	-	-	-	-
Philippine Peso	36	-	-	-	-	36	1,572	-	1,572	36	1,572
Interest rate	4.0000%	-	-	-	-	-	-	-	-	-	-
	350	579	517	773	500	2,719	119,411	2,136	117,275	2,756	121,054

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 September 30, 2013. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points higher/lower as compared to levels as at June 30, 2013. If U.S. dollar interest rates had been 5 basis points higher/lower as compared to market levels as at June 30, 2013, with all other variables held constant, profit after tax for the six months ended June 30, 2013 and our consolidated stockholders' equity as at June 30, 2013 would have been approximately Php11 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 5 basis points higher/lower as compared to market levels as at June 30, 2013, with all other variables held constant, profit after tax for the six months ended June 30, 2013 and our consolidated stockholders' equity as at December 31, 2012 would have been approximately Php10 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 June 30, 2013, December 31, 2012 and January 1, 2012:

	June 30, 2013			December 31, 2012			January 1, 2012		
	(Unaudited)			(Audited)					
	Gross Maximum Exposure	Collateral and Other Credit Adjustments*	Net Maximum Exposure	Gross Maximum Exposure	Collateral and Other Credit Adjustments*	Net Maximum Exposure	Gross Maximum Exposure	Collateral and Other Credit Adjustments*	Net Maximum Exposure
	(in million pesos)								
<i>Loans and receivables:</i>									
Advances and other noncurrent assets	9,267	15	9,252	8,877	12	8,865	1,165	13	1,152
Cash and cash equivalents	40,133	535	39,598	37,161	528	36,633	46,057	574	45,483
Short-term investments	2,824	-	2,824	24	-	24	24	-	24
Investment in debt securities and other long-term investments	303	-	303	205	-	205	-	-	-
Foreign administrations	6,662	-	6,662	4,861	-	4,861	4,762	69	4,693
Retail subscribers	4,201	26	4,175	4,079	27	4,052	4,038	63	3,975
Corporate subscribers	2,314	295	2,019	1,963	246	1,717	2,708	213	2,495
Domestic carriers	1,227	-	1,227	1,601	-	1,601	1,212	-	1,212
Dealers, agents and others	2,830	36	2,794	3,875	31	3,844	3,525	28	3,497
<i>HTM investments:</i>									
Investment in debt securities and other long-term investments	461	-	461	150	-	150	508	-	508
Available-for-sale financial investments	5,693	-	5,693	5,651	-	5,651	7,181	-	7,181
<i>Financial instruments at FVPL:</i>									
Short-term investments	561	-	561	550	-	550	534	-	534
Long-term currency swap	39	-	39	-	-	-	356	-	356
<i>Derivatives used for hedging:</i>									
Forward foreign exchange contracts	-	-	-	-	-	-	10	-	10
Total	76,515	907	75,608	68,997	844	68,153	72,080	960	71,120

* Includes bank insurance, security deposits and customer deposits.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at June 30, 2013, December 31, 2012 and January 1, 2012:

	Total	Neither past due nor impaired		Past due but not impaired	
		Class A ⁽¹⁾	Class B ⁽²⁾	not impaired	Impaired
	(in million pesos)				
June 30, 2013 (Unaudited)					
<i>Loans and receivables:</i>	84,229	55,794	5,746	8,221	14,468
Advances and other noncurrent assets	9,379	9,201	40	26	112
Cash and cash equivalents	40,133	38,878	1,255	-	-
Short-term investments	2,824	2,824	-	-	-
Investment in debt securities and other long-term investments	303	303	-	-	-
Retail subscribers	11,631	796	1,282	2,123	7,430
Corporate subscribers	8,513	573	644	1,097	6,199
Foreign administrations	6,771	2,041	1,016	3,605	109
Domestic carriers	1,341	411	30	786	114
Dealers, agents and others	3,334	767	1,479	584	504
Available-for-sale financial investments	5,693	176	5,517	-	-
<i>Financial instruments at FVPL⁽³⁾:</i>	561	561	-	-	-
Short-term investments	561	561	-	-	-
<i>HTM investments:</i>	461	461	-	-	-
Investment in debt securities and other long-term investments	461	461	-	-	-
<i>Derivatives used for hedging</i>	39	39	-	-	-
Long-term currency options	39	39	-	-	-
Total	90,983	57,031	11,263	8,221	14,468

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A ⁽¹⁾	Class B ⁽²⁾		
(in million pesos)					
December 31, 2012 (Audited)					
<i>Loans and receivables:</i>	76,048	47,710	6,682	8,254	13,402
Advances and other noncurrent assets	8,989	8,848	3	26	112
Cash and cash equivalents	37,161	34,381	2,780	-	-
Short-term investments	24	24	-	-	-
Investment in debt securities and other long-term investments	205	205	-	-	-
Retail subscribers	10,568	967	989	2,123	6,489
Corporate subscribers	8,100	478	540	945	6,137
Foreign administrations	4,960	1,043	923	2,895	99
Domestic carriers	1,707	266	27	1,308	106
Dealers, agents and others	4,334	1,498	1,420	957	459
<i>Available-for-sale financial investments</i>	5,651	159	5,492	-	-
<i>Financial instruments at FVPL⁽³⁾:</i>	550	550	-	-	-
Short-term investments	550	550	-	-	-
<i>HTM investments:</i>	150	150	-	-	-
Investment in debt securities and other long-term investments	150	150	-	-	-
Total	82,399	48,569	12,174	8,254	13,402
January 1, 2012 (Audited)					
<i>Loans and receivables:</i>	78,263	51,689	5,117	6,685	14,772
Advances and other noncurrent assets	1,165	1,128	37	-	-
Cash and cash equivalents	46,057	44,885	1,172	-	-
Short-term investments	24	24	-	-	-
Retail subscribers	11,302	1,449	1,050	1,539	7,264
Corporate subscribers	9,200	974	375	1,359	6,492
Foreign administrations	4,961	1,309	1,242	2,211	199
Domestic carriers	1,323	215	24	973	111
Dealers, agents and others	4,231	1,705	1,217	603	706
<i>HTM investments:</i>	508	508	-	-	-
Investment in debt securities and other long-term investments	508	508	-	-	-
<i>Available-for-sale financial investments</i>	7,181	150	7,031	-	-
<i>Financial instruments at FVPL⁽³⁾:</i>	890	890	-	-	-
Short-term investments	534	534	-	-	-
Long-term currency swap	356	356	-	-	-
<i>Derivatives used for hedging:</i>	10	10	-	-	-
Forward foreign exchange contracts	10	10	-	-	-
Total	86,852	53,247	12,148	6,685	14,772

⁽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 June 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
June 30, 2013 (Unaudited)						
<i>Loans and receivables:</i>	84,229	61,540	3,396	1,289	3,536	14,468
Advances and other noncurrent assets	9,379	9,241	-	-	26	112
Cash and cash equivalents	40,133	40,133	-	-	-	-
Short-term investments	2,824	2,824	-	-	-	-
Investment in debt securities and other long-term investments	303	303	-	-	-	-
Retail subscribers	11,631	2,078	1,653	136	334	7,430
Corporate subscribers	8,513	1,217	461	197	439	6,199
Foreign administrations	6,771	3,057	996	502	2,107	109
Domestic carriers	1,341	441	158	148	480	114
Dealers, agents and others	3,334	2,246	128	306	150	504
<i>Available-for-sale financial investments</i>	5,693	5,693	-	-	-	-
<i>Financial instruments at FVPL:</i>	561	561	-	-	-	-
Short-term investments	561	561	-	-	-	-
<i>HTM investments:</i>	461	461	-	-	-	-
Investment in debt securities and other long-term investments	461	461	-	-	-	-
<i>Derivatives used for hedging:</i>	39	39	-	-	-	-
Long-term currency swaps	39	39	-	-	-	-
Total	90,983	68,294	3,396	1,289	3,536	14,468

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
(in million pesos)						
December 31, 2012 (Audited)						
<i>Loans and receivables:</i>	76,048	54,392	3,017	1,079	4,158	13,402
Advances and other noncurrent assets	8,989	8,851	-	-	26	112
Cash and cash equivalents	37,161	37,161	-	-	-	-
Short-term investments	24	24	-	-	-	-
Investment in debt securities and other						
long-term investments	205	205	-	-	-	-
Retail subscribers	10,568	1,956	1,363	270	490	6,489
Corporate subscribers	8,100	1,018	351	198	396	6,137
Foreign administrations	4,960	1,966	645	452	1,798	99
Domestic carriers	1,707	293	174	144	990	106
Dealers, agents and others	4,334	2,918	484	15	458	459
<i>Available-for-sale financial investments</i>	5,651	5,651	-	-	-	-
<i>Financial instruments at FVPL:</i>	550	550	-	-	-	-
Short-term investments	550	550	-	-	-	-
<i>HTM investments:</i>	150	150	-	-	-	-
Investment in debt securities and other						
long-term investments	150	150	-	-	-	-
Total	82,399	60,743	3,017	1,079	4,158	13,402
January 1, 2012 (Audited)						
<i>Loans and receivables:</i>	78,263	56,806	3,087	1,068	2,530	14,772
Advances and other noncurrent assets	1,165	1,165	-	-	-	-
Cash and cash equivalents	46,057	46,057	-	-	-	-
Short-term investments	24	24	-	-	-	-
Retail subscribers	11,302	2,499	1,202	226	111	7,264
Corporate subscribers	9,200	1,349	706	263	390	6,492
Foreign administrations	4,961	2,551	897	282	1,032	199
Domestic carriers	1,323	239	100	98	775	111
Dealers, agents and others	4,231	2,922	182	199	222	706
<i>Available-for-sale financial investments</i>	7,181	7,181	-	-	-	-
<i>Financial instruments at FVPL:</i>	890	890	-	-	-	-
Short-term investments	534	534	-	-	-	-
Long-term currency swap	356	356	-	-	-	-
<i>HTM investments:</i>	508	508	-	-	-	-
Investment in debt securities and other						
long-term investments	508	508	-	-	-	-
<i>Derivatives used for hedging:</i>	10	10	-	-	-	-
Forward foreign exchange contracts	10	10	-	-	-	-
Total	86,852	65,395	3,087	1,068	2,530	14,772

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. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. 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 EPS. 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 did not buy back any shares of common stock for the six months ended June 30, 2013.

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 June 30, 2013, December 31, 2012 and January 1, 2012:

	June 30, 2013	December 31, 2012	January 1, 2012
	(Unaudited)	(As Adjusted – Note 2)	
		(in million pesos)	
Long-term debt, including current portion (Note 20)	117,895	115,792	114,166
Notes payable (Note 20)	–	–	3,109
Total consolidated debt	117,895	115,792	117,275
Cash and cash equivalents (Note 15)	(40,133)	(37,161)	(46,057)
Short-term investments	(3,385)	(574)	(558)
Net consolidated debt	74,377	78,057	70,660
Equity attributable to equity holders of PLDT	143,600	145,550	153,861
Net consolidated debt to equity ratio	52%	54%	46%

28. Cash Flow Information

The table below shows non-cash activities for the six months ended June 30, 2013 and 2012:

	2013	2012
	(Unaudited)	
	(in million pesos)	
Recognition of asset retirement obligations (Note 21)	15	17
Shares issued for settlement of the purchase price of Digital shares tendered by the noncontrolling Digital stockholders	–	4,401
Liability from redemption of preferred shares which consists of the following:		
Preferred shares redeemed (Note 19)	–	4,029
Unclaimed dividends from stock agent form part of trust account	–	2,323
Unpaid dividends for preferred shares redeemed	–	1,821