SEC Number **PW-55**

File Number ____________

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2010

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

March 1, 2011

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-C with Management's Discussion and Analysis and accompanying audited consolidated financial statements as at and for the year ended December 31, 2010.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P W - 5 5

S.E.C. Registration No.

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

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

(Company's Full Name)

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

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

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

MS. JUNE CHERYL A. CABAL

Contact Person

816-8534

Company Telephone Number

1	2		3	1

Month Day

Fiscal Year

SEC FORM 17-C

FORM TYPE

0	6	Every 2nd Tuesday

Month Day

Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
2,182,277 As of January 31, 2011	N/A	N/A

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

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

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

2. SEC Identification Number PW-55

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

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

5. PHILIPPINES
Province, country or other jurisdiction of Incorporation

6. ____________ (SEC Use Only)
Industry Classification Code

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

8. (632) 816-8553
Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	186,756,438[1]

(1) Represents the total outstanding common shares (net of 2,724,111 shares).

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 and related notes (pages F-1 to F-124) are filed as part of this report on Form 17-C.

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

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

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

The financial information appearing in this report and in the accompanying audited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying audited consolidated financial statements were made based on the exchange rate of Php43.81 to US$1.00, the volume weighted average exchange rate as at December 31, 2010 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)	December 31, 2010	December 31, 2009	Increase (Decrease) Amount	Increase (Decrease) %
Consolidated Statements of Financial Position				
Total assets	Php277,815	Php280,148	(Php2,333)	(1)
Property, plant and equipment – net	163,184	161,256	1,928	1
Cash and cash equivalents and short-term investments	37,347	42,143	(4,796)	(11)
Total equity attributable to equity holders of PLDT	97,069	98,575	(1,506)	(2)
Notes payable and long-term debt, including current portion	89,646	98,729	(9,083)	(9)
Net debt(1) to equity ratio	0.54x	0.57x	–	–

	Years Ended December 31, 2010	Years Ended December 31, 2009	Increase (Decrease) Amount	Increase (Decrease) %
Consolidated Income Statements				
Revenues	Php144,459	Php147,993	(Php3,534)	(2)
Expenses	88,903	90,111	(1,208)	(1)
Other expenses	1,871	3,043	(1,172)	(39)
Income before income tax	53,685	54,839	(1,154)	(2)
Net income for the year	40,259	40,095	164	–
Net income attributable to equity holders of PLDT:				
Reported net income	40,217	39,781	436	1
Core income(2)	42,028	41,138	890	2
EBITDA(3)	83,717	86,194	(2,477)	(3)
EBITDA margin(4)	59%	59%	–	–
Reported earnings per common share:				
Basic	212.85	210.38	2.47	1
Diluted	212.85	210.36	2.49	1
Core earnings per common share:				
Basic	222.55	217.65	4.90	2
Diluted	222.55	217.62	4.93	2
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	77,260	74,386	2,874	4
Net cash used in investing activities	23,283	49,132	(25,849)	(53)
Capital expenditures	*28,766*	*28,069*	*697*	*2*
Net cash used in financing activities	55,322	20,293	35,029	173
Operational Data				
Number of cellular subscribers	45,636,008	41,328,641	4,307,367	10
Number of fixed line subscribers	1,822,105	1,816,541	5,564	–
Number of broadband subscribers:	2,021,004	1,614,407	406,597	25
Fixed Line	*643,048*	*559,664*	*83,384*	*15*
Wireless	*1,377,956*	*1,054,743*	*323,213*	*31*
Number of employees:	28,770	29,035	(265)	(1)
Fixed Line(5)	*7,395*	*7,947*	*(552)*	*(7)*
Wireless(5)	*5,165*	*5,507*	*(342)*	*(6)*
Information and Communications Technology	*16,210*	*15,581*	*629*	*4*

Exchange Rates – per US$	As at December 31, (Year-end rates)	For the year ended December 31, (Weighted average rates)
2010	43.81	45.13
2009	46.43	47.64
2008	47.65	44.47

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

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

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

(4) *EBITDA margin is derived as a percentage of service revenues.*

(5) *Decrease in headcount was primarily due to the manpower rightsizing program, or MRP, in 2010.*

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main business segments:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, Blue Ocean Wireless, or BOW, Airborne Access Corporation, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

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

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc., or BayanTrade; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM (formerly known as *ePLDT Ventus*), (on April 8, 2010, SPi CRM, Parlance Systems, Inc. and Vocativ Systems, Inc. were merged wherein SPi CRM became the surviving entity); internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., netGames, Inc. and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements and *Part II – Other Information – Reorganization of ePLDT*.

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

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

Consolidated other expenses – net in 2010 amounted to Php1,871 million, a decrease of Php1,172 million, or 39%, from Php3,043 million in 2009 primarily due to the combined effects of the following: (i) net increase in equity share in net earnings of associates and joint ventures of Php1,406 million, which was mainly due to PCEV's share in net earnings of Manila Electric Company, or Meralco, of which 68.8 million Meralco shares are held directly by PCEV and an additional 317.8 million Meralco shares are held through Beacon Electric Asset Holdings, Inc., or Beacon, in which PCEV acquired a 50% equity interest effective March 31, 2010 in exchange for transferring 154.2 million Meralco shares to Beacon; (ii) higher net foreign exchange gains by Php898 million in 2010 as compared with 2009 due to the revaluation of foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) higher net losses on derivative financial instruments by Php735 million due to a gain in 2009 in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV partially offset by lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts in 2010; (iv) lower interest income by Php339 million due to lower average level of money market placements and special deposits; (v) an increase in net financing costs by Php142 million mainly due to higher interest on loans and other related items – net, on account of PLDT's and Smart's higher average loan balances, and higher accretion on amortization of debt issuance cost and debt discount, and ICT business' higher accretion on contingent consideration for business acquisitions; and (vi) an increase in other income by Php84 million, which was mainly due to gain on disposal of fixed assets of our wireless business and reversal of prior year's provision by our fixed line business, partially offset by lower gain on fixed assets disposal by our fixed line business.

Consolidated net income increased by Php164 million to Php40,259 million in 2010 from Php40,095 million in 2009. The increase was mainly due to the combined effects of the following: (i) a decrease in the consolidated provision for income tax by Php1,318 million, which was mainly due to lower taxable income from our fixed line and ICT businesses; (ii) a decrease in consolidated expenses by Php1,208 million; (iii) a decrease in consolidated other expenses by Php1,172 million; and (iv) a decrease in consolidated revenues by Php3,534 million. Consolidated net income attributable to equity holders of PLDT increased by Php436 million, or 1%, to Php40,217 million in 2010 from Php39,781 million in 2009. The increase in our consolidated net income attributable to equity holders of PLDT was higher as compared with the increase in our consolidated net income mainly due to the favorable effect in 2010 of Smart's 2009 acquisition of equity interest from PCEV's non-controlling shareholders. Consolidated core income increased by Php890 million, or 2%, to Php42,028 million in 2010 from Php41,138 million in 2009. Our consolidated basic earnings per common share increased to Php212.85 in 2010 from Php210.38 in 2009 and our consolidated diluted earnings per common share increased to Php212.85 in 2010 from Php210.36 in 2009. The increase in consolidated basic and diluted earnings per share of Php2.47, or 1%, and Php2.49, or 1%, respectively, is due to an increase in our reported net income attributable to equity holders of PLDT. Our consolidated core basic earnings per common share also increased to Php222.55 in 2010 from Php217.65 in 2009 and our consolidated core diluted earnings per common share increased to Php222.55 in 2010 from Php217.62 in 2009. Our weighted average number of common shares was approximately 186.8 million and 186.9 million in the years ended December 31, 2010 and 2009, respectively.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses) and net income for the years ended December 31, 2010 and 2009. The majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in millions)		
For the year ended December 31, 2010					
Revenues	Php95,187	Php48,951	Php11,358	(Php11,037)	Php144,459
Expenses	49,632	38,745	11,944	(11,418)	88,903
Other income (expenses)	1,235	(2,946)	221	(381)	(1,871)
Income (loss) before income tax	46,790	7,260	(365)	–	53,685
Provision for (benefit from) income tax	11,414	2,050	(38)	–	13,426
Net income (loss) for the year	35,376	5,210	(327)	–	40,259
Net income attributable to equity holders of PLDT					
Reported net income (loss)	35,326	5,197	(306)	–	40,217
Core income	35,418	5,580	1,030	–	42,028
EBITDA	58,945	22,668	1,723	381	83,717
EBITDA margin	63%	47%	16%	–	59%
For the year ended December 31, 2009					
Revenues	97,524	51,373	11,549	(12,453)	147,993
Expenses	52,432	39,081	11,289	(12,691)	90,111
Other income (expenses)	1,149	(4,170)	216	(238)	(3,043)
Income before income tax	46,241	8,122	476	–	54,839
Provision for (benefit from) income tax	12,514	2,258	(28)	–	14,744
Net income for the year	33,727	5,864	504	–	40,095
Net income attributable to equity holders of PLDT					
Reported net income	33,394	5,854	533	–	39,781
Core income	33,026	7,502	613	(3)	41,138
EBITDA	59,411	25,215	1,330	238	86,194
EBITDA margin	62%	49%	12%	–	59%

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(in millions)					
Revenues	(Php2,337)	(2)	(Php2,422)	(5)	(Php191)	(2)	Php1,416	11	(Php3,534)	(2)
Expenses	(2,800)	(5)	(336)	(1)	655	6	1,273	10	(1,208)	(1)
Other income (expenses)	86	7	1,224	(29)	5	2	(143)	(60)	1,172	(39)
Income (loss) before income tax	549	1	(862)	(11)	(841)	(177)	–	–	(1,154)	(2)
Provision for (benefit from) income tax	(1,100)	(9)	(208)	(9)	(10)	36	–	–	(1,318)	(9)
Net income (loss) for the year	1,649	5	(654)	(11)	(831)	(165)	–	–	164	–
Net income attributable to equity holders of PLDT										
Reported net income (loss)	1,932	6	(657)	(11)	(839)	(157)	–	–	436	1
Core income	2,392	7	(1,922)	(26)	417	68	3	100	890	2
EBITDA	(466)	(1)	(2,547)	(10)	393	30	143	60	(2,477)	(3)

Wireless

Revenues

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

					Increase (Decrease)	
	2010	%	2009	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php86,399	91	Php88,410	91	(Php2,011)	(2)
Wireless broadband, satellite and others						
Wireless broadband	6,286	7	5,383	5	903	17
Satellite and others	1,145	1	2,036	2	(891)	(44)
	93,830	99	95,829	98	(1,999)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subsriber identification module, or SIM,-packs and broadband data modems	1,357	1	1,695	2	(338)	(20)
Total Wireless Revenues	Php95,187	100	Php97,524	100	(Php2,337)	(2)

Service Revenues

Our wireless service revenues decreased by Php1,999 million, or 2%, to Php93,830 million in 2010 as compared with Php95,829 million in 2009, mainly as a result of lower revenues from our cellular services, and satellite and other revenues, partially offset by the increase in our wireless broadband revenues. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international text messaging services because of the continued increase in multiple SIM card ownership, intense competition, the continued decline in yields from short messaging service, or SMS, as a result of aggressive pricing offers, and the prescribed extension of load validity periods. The decline was partially offset, however, by an increase in domestic voice revenues due to the continued patronage of unlimited voice offers, which were introduced starting in the second half of 2009. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php45.13 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the sale of transponders by Mabuhay Satellite. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for 2010 were lower as compared with 2009. We expect the decreasing trend in our cellular revenues, particularly our revenues from domestic and international text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership, continued decline in yields from SMS and competitive pressure. As a percentage of our total wireless revenues, service revenues increased to 99% in 2010 from 98% in 2009.

Cellular Service

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

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

	2010	2009	Increase (Decrease) Amount	%
	(in millions)			
Cellular service revenues	Php86,399	Php88,410	(Php2,011)	(2)
By service type	*83,779*	*85,922*	*(2,143)*	*(2)*
Prepaid	77,231	79,284	(2,053)	(3)
Postpaid	6,548	6,638	(90)	(1)
By component	*83,779*	*85,922*	*(2,143)*	*(2)*
Voice	42,250	38,850	3,400	9
Data	41,529	47,072	(5,543)	(12)
Others[(1)]	*2,620*	*2,488*	*132*	*5*

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

	2010	2009	Increase (Decrease) Amount	%
Cellular subscriber base	45,636,008	41,328,641	4,307,367	10
Prepaid	45,214,433	40,893,098	4,321,335	11
Smart Buddy	*25,293,443*	*23,762,814*	*1,530,629*	*6*
Talk 'N Text	*18,967,381*	*17,050,713*	*1,916,668*	*11*
Red Mobile	*953,609*	*79,571*	*874,038*	*1,098*
Postpaid	421,575	435,543	(13,968)	(3)
Systemwide traffic volumes (in millions)				
Calls (in minutes)	26,136	16,305	9,831	60
Domestic	23,110	13,371	9,739	73
Inbound	*1,438*	*1,495*	*(57)*	*(4)*
Outbound	*21,672*	*11,876*	*9,796*	*82*
International	3,026	2,934	92	3
Inbound	*2,817*	*2,738*	*79*	*3*
Outbound	*209*	*196*	*13*	*7*
SMS/Data count (in hits)	341,113	287,921	53,192	18
Text messages	339,530	286,294	53,236	19
Domestic	339,011	285,847	53,164	19
Inbound	*8,058*	*8,289*	*(231)*	*(3)*
Outbound	*330,953*	*277,558*	*53,395*	*19*
Bucket-Priced	312,634	258,190	54,444	21
Standard	18,319	19,368	(1,049)	(5)
International	519	447	72	16
Inbound	*211*	*136*	*75*	*55*
Outbound	*308*	*311*	*(3)*	*(1)*
Value-Added Services	1,557	1,608	(51)	(3)
Financial Services	26	19	7	37

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

Voice Services

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

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

			Increase (Decrease)	
	2010	**2009**	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php5,203	Php5,095	Php108	2
Outbound	20,632	16,534	4,098	25
	25,835	21,629	4,206	19
International				
Inbound	14,698	15,287	(589)	(4)
Outbound	1,717	1,934	(217)	(11)
	16,415	17,221	(806)	(5)
Total	Php42,250	Php38,850	Php3,400	9

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

International voice service revenues decreased by Php806 million, or 5%, to Php16,415 million in 2010 from Php17,221 million in 2009 primarily due to a decline in inbound international voice service revenues by Php589 million, or 4%, to Php14,698 million in 2010 from Php15,287 million in 2009 and due to a decline in outbound international voice service revenues by Php217 million, or 11%, to Php1,717 million in 2010 from Php1,934 million in 2009. The decline in international voice service revenues was due to the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.13 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009. On the other hand, international inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in our cellular subscriber base.

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

- "*Smartalk 100*" which offers five days of unlimited calls for Php100; and
- "*Smartalk 500*" which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

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

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

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

Data Services

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

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

	2010	2009	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php37,478	Php42,905	(Php5,427)	(13)
Bucket-Priced	*23,138*	*26,797*	*(3,659)*	*(14)*
Standard	*14,340*	*16,108*	*(1,768)*	*(11)*
International	1,423	1,668	(245)	(15)
	38,901	44,573	(5,672)	(13)
Value-added services				
Standard[1]	1,012	1,057	(45)	(4)
Rich Media[2]	1,083	998	85	9
Pasa Load[3]	493	413	80	19
	2,588	2,468	120	5
Financial services				
Smart Money	34	27	7	26
Mobile Banking	6	4	2	50
	40	31	9	29
Total	Php41,529	Php47,072	(Php5,543)	(12)

[1] *Includes standard services such as info-on-demand, ringtone and logo downloads, etc.*
[2] *Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.*
[3] *A service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers.*

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

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

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

Subscriber Base, ARPU and Churn Rates

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

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

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

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

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

The average monthly churn rate for Smart's postpaid subscribers is 2.4% and 1.9% for 2010 and 2009, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

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

	Gross[1]		Decrease		Net[2]		Decrease	
	2010	**2009**	**Amount**	**%**	**2010**	**2009**	**Amount**	**%**
Prepaid								
Smart Buddy	Php220	Php261	(Php41)	(16)	Php174	Php207	(Php33)	(16)
Talk 'N Text	139	161	(22)	(14)	115	133	(18)	(14)
Red Mobile	11	20	(9)	(45)	9	13	(4)	(31)
Prepaid – Blended[3]	183	218	(35)	(16)	147	175	(28)	(16)
Postpaid – Smart	1,678	1,817	(139)	(8)	1,257	1,313	(56)	(4)
Prepaid and Postpaid Blended[4]	198	235	(37)	(16)	158	188	(30)	(16)

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content-provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*
(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.*
(3) *The average monthly ARPU of Smart Buddy, Talk 'N Text and Red Mobile.*
(4) *The average monthly ARPU of all prepaid and postpaid cellular subscribers.*

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

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

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

	Prepaid						Postpaid	
	Smart Buddy		Talk 'N Text		Red Mobile		Smart	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
2010								
First Quarter	Php232	Php184	Php140	Php115	Php11	Php8	Php1,686	Php1,286
Second Quarter	224	179	141	116	4	3	1,665	1,257
Third Quarter	207	163	135	112	6	5	1,661	1,229
Fourth Quarter	215	171	140	116	22	19	1,702	1,256
2009								
First Quarter	272	216	176	144	25	14	1,863	1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278
Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304

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

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

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

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

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

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

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php891 million, or 44%, to Php1,145 million in 2010 from Php2,036 million in 2009, primarily due to the lower satellite transponder rental revenues as a result of the sale of transponders by Mabuhay Satellite in 2009 and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.13 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

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

Expenses

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

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

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

					Increase (Decrease)	
	2010	**%**	**2009**	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php13,243	27	Php13,237	25	Php6	–
Rent	9,038	18	10,553	20	(1,515)	(14)
Compensation and employee benefits[1]	6,385	13	6,059	12	326	5
Repairs and maintenance	5,058	10	4,340	8	718	17
Selling and promotions	3,809	8	4,051	8	(242)	(6)
Cost of sales	3,587	7	4,363	8	(776)	(18)
Professional and other contracted services	3,113	6	2,904	6	209	7
Taxes and licenses	1,683	3	2,022	4	(339)	(17)
Communication, training and travel	948	2	972	2	(24)	(2)
Insurance and security services	831	2	781	1	50	6
Asset impairment	824	2	2,026	4	(1,202)	(59)
Amortization of intangible assets	134	–	126	–	8	6
Other expenses	979	2	998	2	(19)	(2)
Total	Php49,632	100	Php52,432	100	(Php2,800)	(5)

(1) *Includes salaries and employee benefits, long-term incentive plan, or LTIP, pension and MRP costs.*

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

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

Compensation and employee benefits expenses increased by Php326 million, or 5%, to Php6,385 million primarily due to higher MRP costs and higher salaries and employee benefits as a result of merit-based increases, partially offset by the lower provision for LTIP and pension benefits.

Employee headcount of Smart and its subsidiaries decreased to 5,165 in 2010 as compared with 5,454 in 2009.

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

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

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

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

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

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

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

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

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

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

Other Income

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

			Change	
	2010	**2009**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings (losses) of associates	Php1,222	(Php68)	Php1,290	1,897
Foreign exchange gains – net	865	387	478	124
Interest income	698	1,139	(441)	(39)
Gains on derivative financial instruments – net	3	1,166	(1,163)	(100)
Financing costs – net	(2,683)	(2,619)	(64)	2
Others	1,130	1,144	(14)	(1)
Total	Php1,235	Php1,149	Php86	7

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

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

Provision for Income Tax

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

Net Income

Our wireless business segment recorded a net income of Php35,376 million in 2010, an increase of Php1,649 million, or 5%, from Php33,727 million recorded in 2009 on account of a decrease in the wireless-related expenses by Php2,800 million, the lower provision for income tax by Php1,100 million and an increase in other income – net by Php86 million, partially offset by a decrease in wireless revenues by Php2,337 million. Our wireless business segment's net income attributable to equity holders also increased by Php1,932 million, or 6%, to Php35,326 million in 2010 from Php33,394 million in 2009 mainly due to an increase in net income complemented by the favorable effect in 2010 of Smart's 2009 acquisition of equity interest from PCEV's non-controlling shareholders. Our wireless business segment's core income increased by Php2,392 million, or 7%, to Php35,418 million in 2010 from Php33,026 million in 2009.

Fixed Line

Revenues

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

					Increase (Decrease)	
	2010	**%**	**2009**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Local exchange	Php15,321	31	Php15,681	31	(Php360)	(2)
International long distance	5,224	11	6,255	12	(1,031)	(16)
National long distance	4,690	10	5,969	12	(1,279)	(21)
Data and other network	21,646	44	21,567	42	79	–
Miscellaneous	1,728	3	1,668	3	60	4
	48,609	99	51,140	100	(2,531)	(5)
Non-Service Revenues:						
Sale of computers, PLDT Landline Plus, or PLP, units and SIM cards	342	1	233	–	109	47
Total Fixed Line Revenues	Php48,951	100	Php51,373	100	(Php2,422)	(5)

Service Revenues

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

Local Exchange Service

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

			Increase (Decrease)	
	2010	**2009**	**Amount**	**%**
Total local exchange service revenues (in millions)	Php15,321	Php15,681	(Php360)	(2)
Number of fixed line subscribers	1,822,105	1,816,541	5,564	–
Postpaid	1,703,998	1,637,981	66,017	4
Prepaid	118,107	178,560	(60,453)	(34)
Number of fixed line employees	7,395	7,947	(552)	(7)
Number of fixed line subscribers per employee	246	229	17	7

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

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

There are two plans being offered for the PLP postpaid regular service: (a) Plan 600 with 600 free local outgoing minutes; and (b) Plan 1000 with 1,000 free local outgoing minutes, and a charge of Php1 per minute in excess of free minutes for both plans. Another postpaid service we offer is the *Call All* plan in which PLP is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers the Internet@Home service, which is a voice and data bundle offered in two plans with monthly service fees of Php990 and Php1,299.

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

International Long Distance Service

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

	2010	2009	Decrease Amount	Decrease %
Total international long distance service revenues (in millions)	Php5,224	Php6,255	(Php1,031)	(16)
Inbound	4,499	5,198	(699)	(13)
Outbound	725	1,057	(332)	(31)
International call volumes (in million minutes, except call ratio)	1,714	1,863	(149)	(8)
Inbound	1,515	1,653	(138)	(8)
Outbound	199	210	(11)	(5)
Inbound-outbound call ratio	7.6:1	7.9:1	–	–

Our total international long distance service revenues decreased by Php1,031 million, or 16%, to Php5,224 million in 2010 from Php6,255 million in 2009 primarily due to the decrease in the average collection and settlement rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.13 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 11% and 12% in 2010 and 2009, respectively.

Our revenues from inbound international long distance service decreased by Php699 million, or 13%, to Php4,499 million in 2010 from Php5,198 million in 2009 due to the decline in inbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php332 million, or 31%, to Php725 million in 2010 from Php1,057 million in 2009 primarily due to the decrease in average collection rate in dollar terms, the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.13 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009, resulting in a decrease in the average billing rates to Php45.31 in 2010 from Php47.78 in 2009, and the decline in outbound call volumes.

National Long Distance Service

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

	2010	2009	Decrease Amount	%
Total national long distance service revenues (in millions)	Php4,690	Php5,969	(Php1,279)	(21)
National long distance call volumes (in million minutes)	1,290	1,822	(532)	(29)

Our national long distance service revenues decreased by Php1,279 million, or 21%, to Php4,690 million in 2010 from Php5,969 million in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 10% in 2010 from 12% in 2009.

Data and Other Network Services

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

	2010	2009	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php21,646	Php21,567	Php79	–
Domestic	15,637	16,391	(754)	(5)
Broadband	*8,511*	*7,232*	*1,279*	*18*
DSL	8,263	7,024	1,239	18
WeRoam	248	208	40	19
Leased Lines and Others	*7,126*	*9,159*	*(2,033)*	*(22)*
International				
Leased Lines and Others	*6,009*	*5,176*	*833*	*16*
Subscriber base:				
Broadband	*665,027*	*576,687*	*88,340*	*15*
DSL	643,048	559,664	83,384	15
WeRoam	21,979	17,023	4,956	29
SWUP	*15,641*	*12,383*	*3,258*	*26*

In 2010, our data and other network services posted revenues of Php21,646 million, an increase of Php79 million from Php21,567 million in 2009 primarily due to an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*, as well as an increase in international data revenues, particularly from i-Gate, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues increased to 44% in 2010 from 42% in 2009.

Domestic

Domestic data services contributed Php15,637 million in 2010, a decrease of Php754 million, or 5%, as compared with Php16,391 million in 2009 mainly due to lower Diginet revenues partially offset by the continued growth in DSL, Shops.Work Unplugged, or SWUP, internet protocol-virtual private network, or IP-VPN, and Metro Ethernet subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services decreased to 72% in 2010 from 76% in 2009.

Broadband

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

Leased Lines and Others

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

International

Leased Lines and Others

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

Miscellaneous Services

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

Non-service Revenues

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

Expenses

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

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

					Increase (Decrease)	
	2010	**%**	**2009**	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php12,292	32	Php11,619	30	Php673	6
Compensation and employee benefits[1]	11,692	30	10,637	27	1,055	10
Repairs and maintenance	4,527	12	4,345	11	182	4
Professional and other contracted services	3,199	8	2,485	6	714	29
Rent	2,469	6	2,749	7	(280)	(10)
Selling and promotions	1,376	3	1,590	4	(214)	(13)
Taxes and licenses	780	2	755	2	25	3
Communication, training and travel	627	2	658	2	(31)	(5)
Insurance and security services	434	1	488	1	(54)	(11)
Cost of sales	433	1	310	1	123	40
Asset impairment	291	1	2,901	8	(2,610)	(90)
Other expenses	625	2	544	1	81	15
Total	Php38,745	100	Php39,081	100	(Php336)	(1)

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Expenses

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

			Change	
	2010	**2009**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains – net	Php1,008	Php532	Php476	89
Interest income	484	402	82	20
Equity share in net losses of joint ventures	–	(98)	98	100
Losses on derivative financial instruments – net	(1,746)	(2,180)	434	(20)
Financing costs – net	(3,856)	(3,796)	(60)	2
Others	1,164	970	194	20
Total	(Php2,946)	(Php4,170)	Php1,224	(29)

Our fixed line business segment's other expenses – net amounted to Php2,946 million in 2010, a decrease of Php1,224 million, or 29%, from Php4,170 million in 2009. The change was due to the combined effects of the following: (i) net increase in foreign exchange gains by Php476 million on account of higher gains on net foreign exchange revaluation of foreign-currency denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) lower loss on derivative financial instruments by Php434 million in 2010 as compared with 2009 due to lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts; (iii) increase in other income by Php194 million mainly due to the partial recovery of priority deposit from Protostar, higher miscellaneous income from consultancy, and subsidiaries and affiliates; (iv) share in net losses of joint ventures of Php98 million in 2009; (v) an increase in interest income by Php82 million due to higher average interest rate and higher level of cash balances; and (vi) an increase in net financing costs by Php60 million due to an increase in interest expense on loans and related items – net on account of a higher level of average loan balances as well as lower capitalized interest, partially offset by lower level of average interest rate.

Provision for Income Tax

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

Net Income

In 2010, our fixed line business segment contributed a net income of Php5,210 million, a decrease of Php654 million, or 11%, as compared with Php5,864 million in 2009 primarily as a result of the decrease in fixed line revenues by Php2,422 million, partially offset by decreases in other expenses – net by Php1,224 million, lower fixed line-related expenses by Php336 million and lower provision for income tax by Php208 million. Our fixed line business segment's net income attributable to equity holders decreased by Php657 million, or 11%, to Php5,197 million in 2010 from Php5,854 million in 2009. Our fixed line business segment's core income also decreased by Php1,922 million, or 26%, to Php5,580 million in 2010 from Php7,502 million in 2009.

Information and Communications Technology

Revenues

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

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

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

	2010	%	2009	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php5,289	47	Php5,215	45	Php74	1
Customer relationship management	2,823	25	3,319	29	(496)	(15)
Internet and online gaming	1,059	9	1,113	10	(54)	(5)
Data center and others	1,506	13	1,204	10	302	25
	10,677	94	10,851	94	(174)	(2)
Non-Service Revenues:						
Point-product sales	681	6	698	6	(17)	(2)
Total ICT Revenues	Php11,358	100	Php11,549	100	(Php191)	(2)

Service Revenues

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

Knowledge Processing Solutions

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

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php496 million, or 15%, to Php2,823 million in 2010 from Php3,319 million in 2009 primarily due to lower dollar-denominated revenues by 14%, lower domestic sales by 1%, and the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 5,565 seats with an average of 4,592 customer service representatives, or CSRs, in 2010, as compared with 7,140 seats with an average of 5,190 CSRs in 2009. SPi CRM had six and seven customer relationship management sites as at December 31, 2010 and 2009, respectively. Customer relationship management business revenues accounted for 26% and 31% of total service revenues of our ICT business in 2010 and 2009, respectively.

Internet and Online Gaming

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

Data Center and Others

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

Non-Service Revenues

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

Expenses

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

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

	2010	%	2009	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits[1]	Php6,000	50	Php6,418	57	(Php418)	(7)
Asset impairment	1,323	11	134	1	1,189	887
Repairs and maintenance	752	6	669	6	83	12
Cost of sales	751	6	799	7	(48)	(6)
Depreciation and amortization	742	6	751	7	(9)	(1)
Rent	687	6	716	6	(29)	(4)
Professional and other contracted services	500	4	592	5	(92)	(16)
Communication, training and travel	461	4	500	4	(39)	(8)
Amortization of intangible assets	254	2	242	2	12	5
Taxes and licenses	108	1	104	1	4	4
Selling and promotions	103	1	113	1	(10)	(9)
Insurance and security services	79	1	68	1	11	16
Other expenses	184	2	183	2	1	1
Total	Php11,944	100	Php11,289	100	Php655	6

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

Compensation and employee benefits decreased by Php418 million, or 7%, to Php6,000 million mainly due to a decline in salaries and employee benefits, and the lower provision for LTIP, partially offset by the increase in MRP costs and pension benefits. Although ePLDT and its subsidiaries' employee headcount increased by 629 to 16,210 in 2010 as compared with 15,581 in 2009, related costs decreased due to lower labor cost per head, particularly from our knowledge processing solutions business.

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

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

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

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

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

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

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

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

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

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

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

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

Other Income

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

			Change	
	2010	2009	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php186	Php168	Php18	11
Interest income	35	28	7	25
Gains on derivative financial instruments – net	2	8	(6)	(75)
Foreign exchange losses – net	(66)	(12)	(54)	450
Financing costs – net	(176)	(171)	5	3
Others	240	195	45	23
Total	Php221	Php216	Php5	2

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

Benefit from Income Tax

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

Net Income (Loss)

In 2010, our ICT business segment registered a net loss of Php327 million as compared with a net income of Php504 million in 2009 mainly as a result of an increase in ICT-related expenses by Php655 million and a decrease in ICT revenues by Php191 million, partially offset by a net benefit from income tax by Php10 million and an increase in other income by Php5 million. Our ICT business segment's net loss attributable to equity holders amounted to Php306 million in 2010 as compared with a net income attributable to equity holders of Php533 million posted in 2009. Our ICT business segment's core income amounted to Php1,030 million in 2010, an increase of Php417 million, or 68%, as compared with Php613 million in 2009.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2010 and 2009 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2010 and 2009:

	Years Ended December 31,	
	2010	**2009**
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php77,260	Php74,386
Net cash used in investing activities	23,283	49,132
Capital expenditures	*28,766*	*28,069*
Net cash used in financing activities	55,322	20,293
Net increase (decrease) in cash and cash equivalents	(1,641)	4,635

	December 31,	
	2010	**2009**
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php75,879	Php86,066
Obligations under finance lease	9	13
	75,888	86,079
Current portion of interest-bearing financial liabilities:		
Notes payable	–	2,279
Long-term debt maturing within one year	13,767	10,384
Obligations under finance lease maturing within one year	34	51
	13,801	12,714
Total interest-bearing financial liabilities	89,689	98,793
Total equity attributable to equity holders of PLDT	97,069	98,575
	Php186,758	Php197,368
Other Selected Financial Data		
Total assets	Php277,815	Php280,148
Property, plant and equipment	163,184	161,256
Cash and cash equivalents	36,678	38,319
Short-term investments	669	3,824

As at December 31, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php37,347 million. Principal sources of consolidated cash and cash equivalents in 2010 were cash flows from operating activities amounting to Php77,260 million, proceeds from availment of long-term debt of Php7,246 million, net proceeds from maturity of short-term investments of Php3,142 million and interest received of Php1,165 million. These funds were used principally for: (1) dividend payments of Php41,080 million; (2) capital outlays of Php28,766 million; (3) total debt principal and interest payments of Php14,645 million and Php5,580 million, respectively; and (4) settlement of derivative financial instruments of Php1,095 million.

As at December 31, 2009, our consolidated cash and cash equivalents and short-term investments totaled Php42,143 million. Principal sources of consolidated cash and cash equivalents in 2009 were cash flows from operating activities amounting to Php74,386 million and drawings mainly from PLDT's and Smart's debt facilities, including notes payable, aggregating Php43,989 million and net proceeds from maturity of short-term investments of Php2,890 million. These funds were used principally for: (1) dividend payments of Php39,286 million; (2) payments for purchase of investments in subsidiaries and associates of Php27,059 million, including PCEV's acquisition of Meralco shares of Php18,070 million and settlement of the tender offer to PCEV's non-controlling interests of Php6,618 million; (3) capital outlays of Php28,069 million; (4) total debt principal and interest payments of Php19,228 million and Php5,239 million, respectively; (5) payment for an exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to PCEV (including derivative option) of Php2,000 million; and (6) a buyback of shares of PLDT of Php1,752 million.

Operating Activities

Our consolidated net cash flows from operating activities in 2010 increased by Php2,874 million, or 4%, to Php77,260 million from Php74,386 million in 2009 primarily due to the lower pension contribution and the lower level of settlement of various payables.

A significant portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% of our total service revenues in each of 2010 and 2009. Revenues from our fixed line and ICT businesses accounted for 32% and 7%, respectively, of our total service revenues in each of 2010 and 2009.

Cash flows from operating activities of our wireless business amounted to Php55,497 million in 2010, an increase of Php439 million, or 1%, as compared with Php55,058 million in 2009. The increase in our wireless business segment's cash flows from operating activities was a result of a lower level of settlement of accounts payable, partially offset by higher level of outstanding receivables mainly from dealers, carriers and subscribers and LTIP payout in 2010. Cash flows provided by operating activities of our fixed line business amounted to Php20,454 million in 2010, an increase of Php2,544 million, or 14%, as compared with Php17,910 million in 2009 primarily due to an increase in collection of accounts receivables and lower pension contributions made to the beneficial trust fund, which was partially offset by LTIP payout in 2010 and higher level of settlement of accounts payable and other current liabilities in 2010. On the other hand, cash flows from operating activities of our ICT business decreased by Php96 million, or 7%, to Php1,327 million in 2010 from Php1,423 million in 2009 mainly due to the higher working capital requirements in 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php23,283 million in 2010, a decrease of Php25,849 million, or 53%, as compared with Php49,132 million in 2009 primarily due to the combined effects of the following: (1) a decrease in the investment in subsidiaries and associates by Php26,858 million mainly due to PCEV's acquisition of Meralco shares of Php18,070 million, and the settlement of the tender offer of PCEV's non-controlling shareholders of Php6,618 million in 2009;

(2) the higher net proceeds from the maturity of short-term investments by Php252 million; (3) the higher dividends received in 2010 by Php174 million; (4) the increase in capital expenditures by Php697 million in 2010; (5) the lower net proceeds of investments in debt securities by Php427 million; (6) an increase in advances and refundable deposits by Php230 million; and (7) the lower interest received by Php187 million.

Our consolidated capital expenditures in 2010 totaled Php28,766 million, an increase of Php697 million, or 2%, as compared with Php28,069 million in 2009 primarily due to the increase in Smart's capital spending. Smart's capital spending of Php16,944 million in 2010 was used primarily to build a secondary network for unlimited services, to expand its 3G broadband network, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,874 million in 2010 was principally used to finance the expansion and upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. ePLDT and its subsidiaries' capital spending of Php750 million in 2010 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

Dividends received in 2010 amounted to Php534 million, an increase of Php174 million, as compared with Php360 million in 2009. The dividends received in 2010 were mainly from Meralco, Philweb, Inc. and ePDS, Inc., which amounted to Php482 million, Php33 million and Php19 million, respectively, while the dividends received in 2009 were mainly from Meralco and ePDS, Inc., which amounted to Php337 million and Php23 million, respectively.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php55,322 million in 2010, an increase of Php35,029 million, or 173%, as compared with Php20,293 million in 2009, resulting largely from the combined effects of the following: (1) lower proceeds from the issuance of long-term debt and notes payable by Php36,743 million in 2010; (2) lower availment of capital expenditures under long-term financing by Php3,240 million; (3) higher cash dividend payments by Php1,794 million; (4) higher interest payments by Php341 million; (5) lower repayments of long-term debt and notes payable by Php4,583 million; (6) lower share buyback by Php1,646 million; and (7) lower settlement of derivative financial instruments by Php818 million.

Debt Financing

Additions to our consolidated debt, including notes payable, for the years ended December 31, 2010 and 2009 totaled Php7,246 million and Php43,989 million, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php14,645 million and Php5,580 million, respectively, in 2010 and Php19,228 million and Php5,239 million, respectively, in 2009.

Our consolidated long-term debt decreased by Php6,804 million, or 7%, to Php89,646 million in 2010, largely due to debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php43.81 in December 31, 2010 from Php46.43 in December 31, 2009, partially offset by drawings from our term loan facilities. The long-term debt levels of PLDT and Smart decreased by 9% and 5% to Php49,017 million and Php40,514 million, respectively, as at December 31, 2010 as compared with December 31, 2009.

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The amount of Php2,500 million remained outstanding as at December 31, 2010.

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance Smart's capital expenditures for network improvement and expansion. The amount of Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2010.

Approximately Php63,969 million principal amount of our consolidated outstanding long-term debt as at December 31, 2010 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php39,410 million is attributable to Smart, Php24,443 million to PLDT, and the remainder to ePLDT.

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

Debt Covenants

Our consolidated debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments. Furthermore, certain of PLDT's debt instruments contain provisions wherein PLDT may be required to repurchase or prepay certain indebtedness in case of a change in control of PLDT.

Please see *Note 20 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying audited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

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

Consolidated cash dividend payments in 2010 amounted to Php41,080 million, an increase of Php1,794 million, or 5%, as compared with Php39,286 million paid to shareholders in 2009. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our 2010 core earnings per share. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately a 100% payout of our 2009 core earnings per share.

Off-Statement of Financial Position Arrangements

There are no off-statement financial position arrangements that have or are reasonably likely to have any current or future effect on our financial position, results of operations, cash flows, changes in stockholders' equity, liquidity, capital expenditures or capital resources that are material to investors.

Equity Financing

Through our subscriber investment plan, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million in each of 2010 and 2009 from this source. PLDT raised Php15 million from the exercise by certain officers and executives of stock options in 2009.

As part of our goal to maximize returns to our shareholders, we obtained board of directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at December 31, 2010, we had acquired a total of approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program. Likewise, as at December 31, 2009, we had acquired a total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the years ended December 31, 2010 and 2009. Please see to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2010 and 2009, see *Note 26 – Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements.

Commercial Commitments

As at December 31, 2010 and 2009, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,145 million and Php1,317 million, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

For further discussions of these risks, see *Note 26 – Contractual Obligations and Commercial Commitments* and *Note 28 – Financial Assets and Liabilities* to the accompanying consolidated financial statements.

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at December 31, 2010 and September 30, 2010:

	Fair Values	
	December 31, 2010	**September 30, 2010**
(in millions)		
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php78	Php76
Unlisted equity securities	69	64
Investments in debt securities	502	493
Derivative financial assets	178	–
Advances and refundable deposits – net of current portion	915	873
Total noncurrent financial assets	1,742	1,506
Current Financial Assets		
Cash and cash equivalents	36,678	26,902
Short-term investments	669	3,366
Investment in debt securities	–	405
Trade and other receivables - net	16,428	15,171
Derivative financial assets	5	9
Current portion of advances and refundable deposits	16	16
Total current financial assets	53,796	45,869
Total Financial Assets	**Php55,538**	**Php47,375**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php82,252	Php86,145
Derivative financial liabilities	3,604	2,366
Customers' deposits	1,701	1,576
Deferred credits and other noncurrent liabilities	11,457	10,705
Total noncurrent financial liabilities	99,014	100,792
Current Financial Liabilities		
Accounts payable	23,673	17,636
Accrued expenses and other current liabilities	28,822	28,371
Interest-bearing financial liabilities	13,801	12,720
Dividends payable	2,086	2,139
Total current financial liabilities	68,382	60,866
Total Financial Liabilities	**Php167,396**	**Php161,658**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2010 and for the nine months ended September 30, 2010:

	December 31, 2010	**September 30, 2010**
(in millions)		
Profit and Loss		
Interest income	Php1,200	Php914
Losses on derivative financial instruments – net	(1,741)	(495)
Accretion on financial liabilities – net	(1,177)	(885)
Interest on loans and other related items	(6,181)	(4,668)
Other Comprehensive Income		
Revaluation increment on investment properties – net	314	–
Net gains available-for-sale financial assets	22	19
	(Php7,563)	**(Php5,115)**

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2010 was 3.8% as compared with 3.2% in 2009. Moving forward, we expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

Reorganization of ePLDT

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the ICT business group, which provides data center services, internet and online gaming services and business solutions and applications; and (ii) the Business Process Outsourcing, or BPO, business group which covers customer relationship management or call center operations under SPi CRM; and Content Solutions, Medical Billing and Coding and Medical Transcription services under SPi Technologies, Inc., or SPi. The BPO business group will be eventually transferred to PLDT subject to the finalization of the terms and conditions thereof and the execution of relevant agreements.

Although our Board of Directors already approved the reorganization of ePLDT into two business groups – ICT business group and BPO business group, the actual reorganization has yet to be consummated as at March 1, 2011 and therefore, as at December 31, 2010, the chief operating decision maker continues to view our business activities using the three business units: Wireless, Fixed Line and ICT.

Transfer of PCEV's Equity Interest in Meralco

On March 1, 2010, PCEV, Metro Pacific Investments Corporation, or MPIC, and Beacon entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., was organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity shares in Meralco, see *Note 10 – Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements for further discussion. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Investment in Beacon

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon, consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

On April 29, 2010, the Philippine Securities and Exchange Commission, or SEC, approved Beacon's application to increase its authorized capital stock to Php5 billion consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock for a subscription price of Php10 per share or a total of Php8,010 million.

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

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

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon. The deposit for future stock subscription was eventually reclassified to investment account when Beacon's increase in authorized capital stock was approved by the Philippine SEC.

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

Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares described above, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares.

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

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

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

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,084 million investment in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,046 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,084 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

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

PCEV may, at some future time and under such terms and conditions as may be agreed by PCEV and Beacon, transfer to Beacon its remaining 68.8 million Meralco common shares.

Call Option

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

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

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

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by PCEV and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

Governance Arrangements

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

On March 30, 2010, Beacon also entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. As at December 31, 2010, the amount drawn under this facility amounted to Php16,200 million (Php16,027 million, net of debt issuance cost of Php173 million); the remaining undrawn balance amounted to Php1,800 million.

In 2010, Beacon engaged the services of an independent appraiser to provide the fair market values of the operating equity investments, fixed assets and intangible assets of Meralco at the time of Beacon's acquisition of its Meralco shares and allocate the purchase price of Beacon's investment in Meralco among the identifiable assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php50,595 million between Beacon's share of the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of Beacon's investment was allocated as follows: (a) Php2,521 million for utility plant and others; (b) Php341 million for investment properties; (c) Php59 million for investment in associates and joint ventures; (d) Php1,814 million for intangible assets particularly for franchise; (e) Php26 million for contingent liability; (f) Php2,018 million for deferred income tax liabilities; and (g) Php47,904 million for goodwill.

Beacon also recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for certain property dividends that may be declared on its Meralco shares pursuant to the Option Agreement between Beacon and FPHC. The liability for contingent consideration was remeasured based on the fair value of said property dividends as at December 31, 2010, and the resulting re-measurement loss of Php331 million was charged to profit and loss.

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

As at December 31, 2010, Beacon held 393 million Meralco common shares representing approximately 35% equity interest in Meralco with market value of Php89,490 million based on a quoted price of Php228 per share.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at December 31, 2010:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
Corporate subscribers	Php8,917	Php2,146	Php919	Php264	Php5,588
Retail subscribers	7,998	1,218	1,322	241	5,217
Foreign administrations	4,479	1,389	1,100	623	1,367
Domestic carriers	1,591	196	176	183	1,036
Dealers, agents and others	5,273	4,634	28	187	424
Total	Php28,258	Php9,583	Php3,545	Php1,498	Php13,632
Less: Allowance for doubtful accounts	11,830				
Total Receivables - net	**Php16,428**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the fourth quarter of 2010 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________

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

Signature and Title: ______________________________

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

Date: March 1, 2011