SEC Number **PW-55**
File Number ______

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2011

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 2, 2011

Securities and Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the six (6) months ended June 30, 2011.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE

TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG.

MAKATI AVE. MAKATI CITY

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

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

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

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

Total Amount of Borrowings

2,181,790 As of June 30, 2011	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number ________ LCU

Document I.D. ________ Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2011

2. SEC Identification Number PW-55

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

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

5. Republic of the Philippines
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City — 0721
   Address of registrant's principal office — Postal Code

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

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

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	186,756,663 shares as at June 30, 2011

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

    Yes [X]   No [ ]

12. Check whether the registrant

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

    Yes [X]   No [ ]

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

    Yes [X]   No [ ]

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at June 30, 2011 (unaudited) and December 31, 2010 (audited) and for the six months ended June 30, 2011 and 2010 (unaudited) and related notes (pages F-1 to F-115) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.36 to US$1.00, the volume weighted average exchange rate as at June 30, 2011 quoted through the Philippine Dealing System.

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

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

Financial Highlights and Key Performance Indicators

(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php271,484	Php277,815	(Php6,331)	(2)
Property, plant and equipment – net	156,289	163,184	(6,895)	(4)
Cash and cash equivalents and short-term investments	39,258	37,347	1,911	5
Total equity attributable to equity holders of PLDT	91,292	97,069	(5,777)	(6)
Notes payable and long-term debt, including current portion	94,153	89,646	4,507	5
Net debt[(1)] to equity ratio	0.60x	0.54x	–	–

	Six Months Ended June 30, 2011 (Unaudited)	Six Months Ended June 30, 2010 (Unaudited)	Increase (Decrease) Amount	%
Consolidated Income Statements				
Revenues	Php70,782	Php73,207	(Php2,425)	(3)
Expenses	42,535	43,301	(766)	(2)
Other expenses	153	529	(376)	(71)
Income before income tax	28,094	29,377	(1,283)	(4)
Net income for the period	21,296	21,621	(325)	(2)
Net income attributable to equity holders of PLDT:				
Reported net income	21,299	21,679	(380)	(2)
Core income	21,023	21,230	(207)	(1)
EBITDA	41,512	43,257	(1,745)	(4)
EBITDA margin[(2)]	60%	60%	–	–
Reported earnings per common share:				
Basic	112.83	114.84	(2.01)	(2)
Diluted	112.76	114.77	(2.01)	(2)
Core earnings per common share[(3)]:				
Basic	111.35	112.43	(1.08)	(1)
Diluted	111.30	112.39	(1.09)	(1)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	34,629	31,848	2,781	9
Net cash used in investing activities	6,298	5,773	525	9
Capital expenditures	*6,335*	*9,700*	*(3,365)*	*(35)*
Net cash used in financing activities	26,285	35,595	(9,310)	(26)
Operational Data				
Number of cellular subscribers	47,834,533	45,345,998	2,488,535	5
Number of fixed line subscribers	1,856,890	1,862,992	(6,102)	–
Number of broadband subscribers:	2,212,219	1,950,695	261,524	13
Fixed Line	*698,921*	*609,143*	*89,778*	*15*
Wireless	*1,513,298*	*1,341,552*	*171,746*	*13*
Number of employees:	29,327	29,717	(390)	(1)
Fixed Line	*7,410*	*8,056*	*(646)*	*(8)*
Wireless	*5,069*	*5,405*	*(336)*	*(6)*
Information and Communications Technology	*16,848*	*16,256*	592	*4*

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
June 30, 2011	Php43.36	Php43.52
December 31, 2010	43.81	45.12
June 30, 2010	46.42	45.78
December 31, 2009	46.43	47.64

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

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

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Connectivity Unlimited Resource Enterprise, our cellular service providers; Smart Broadband, Inc., or SBI, 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. and Subsidiaries, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc.; knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM; internet access and online gaming services provided by Infocom Technologies, Inc., Digital Paradise, Inc., or Digital Paradise (on April 1, 2011, ePLDT sold its entire 75% stake in Digital Paradise), netGames, Inc. and Level Up!, Inc., or Level Up! (on July 11, 2011, ePLDT sold its entire 57.51% interest in Level Up!); and 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 unaudited consolidated financial statements.

Performance Indicators

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

EBITDA

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

Core Income

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

Management's Financial Review

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

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

	2011	2010
	(in millions)	
Consolidated EBITDA	Php41,512	Php43,257
Amortization of intangible assets	(144)	(178)
Depreciation and amortization	(13,118)	(13,054)
Asset impairment on non-financial assets	(3)	(119)
	28,247	29,906
Equity share in net earnings of associates and joint ventures	839	881
Interest income	645	612
Gains on derivative financial instruments – net	484	934
Foreign exchange gains (losses) – net	426	(59)
Financing costs – net	(3,178)	(3,451)
Other income	631	554
Consolidated income before income tax	28,094	29,377
Provision for income tax	(6,798)	(7,756)
Consolidated net income for the period	Php21,296	Php21,621

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

	2011	2010
	(in millions)	
Consolidated core income for the period	Php21,023	Php21,230
Gains on derivative financial instruments – net, excluding hedge cost	663	1,189
Foreign exchange gains (losses) – net	423	(59)
Core income adjustment on equity share in net earnings of associates and joint ventures	(458)	(227)
Others	(74)	(115)
Net tax effect of aforementioned adjustments	(278)	(339)
Net income attributable to equity holders of PLDT	21,299	21,679
Net loss attributable to non-controlling interests	(3)	(58)
Consolidated net income for the period	Php21,296	Php21,621

Results of Operations

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

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in millions)		
For the six months ended June 30, 2011					
Revenues	Php46,334	Php23,784	Php5,671	(Php5,007)	Php70,782
Expenses	24,107	18,387	5,149	(5,108)	42,535
Other income (expenses)	271	(519)	196	(101)	(153)
Income before income tax	22,498	4,878	718	–	28,094
Provision for income tax	5,383	1,366	49	–	6,798
Net income for the period/Segment profit for the period	17,115	3,512	669	–	21,296
EBITDA for the period	29,039	11,393	979	101	41,512
EBITDA margin for the period(1)	63%	49%	18%	–	60%
Core income for the period	17,428	2,939	656	–	21,023
For the six months ended June 30, 2010					
Revenues	48,621	25,417	5,497	(6,328)	73,207
Expenses	25,758	18,723	5,277	(6,457)	43,301
Other income (expenses)	(46)	(420)	66	(129)	(529)
Income before income tax	22,817	6,274	286	–	29,377
Provision for (benefit from) income tax	6,051	1,724	(19)	–	7,756
Net income for the period/Segment profit for the period	16,766	4,550	305	–	21,621
EBITDA for the period	29,704	12,668	756	129	43,257
EBITDA margin for the period(1)	62%	50%	14%	–	60%
Core income for the period	17,133	3,753	344	–	21,230

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(in millions)					
Revenues	(Php2,287)	(5)	(Php1,633)	(6)	Php174	3	Php1,321	(21)	(Php2,425)	(3)
Expenses	(1,651)	(6)	(336)	(2)	(128)	(2)	1,349	(21)	(766)	(2)
Other income (expenses)	317	689	(99)	24	130	197	28	(22)	376	(71)
Income before income tax	(319)	(1)	(1,396)	(22)	432	151	–	–	(1,283)	(4)
Provision for (benefit from) income tax	(668)	(11)	(358)	(21)	68	358	–	–	(958)	(12)
Net income for the period/Segment profit for the period	349	2	(1,038)	(23)	364	119	–	–	(325)	(2)
EBITDA for the period	(665)	(2)	(1,275)	(10)	223	29	(28)	(22)	(1,745)	(4)
Core income for the period	295	2	(814)	(22)	312	91	–	–	(207)	(1)

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

On a Consolidated Basis

We registered consolidated revenues of Php70,782 million in the first half of 2011, a decrease of Php2,425 million, or 3%, as compared with Php73,207 million in the same period in 2010, primarily due to a decline in our service revenues by Php2,515 million as a result of decreases in cellular and satellite revenues from our wireless business, as well as lower revenues from local exchange, national and international long distance services, partly offset by the increase in data and other network services of our fixed line business.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php46,334	65	Php48,621	66	(Php2,287)	(5)
Fixed line	23,784	34	25,417	35	(1,633)	(6)
Information and communications technology	5,671	8	5,497	8	174	3
Inter-segment transactions	(5,007)	(7)	(6,328)	(9)	1,321	(21)
Consolidated	Php70,782	100	Php73,207	100	(Php2,425)	(3)

Consolidated expenses decreased by Php766 million, or 2%, to Php42,535 million in the first half of 2011 from Php43,301 million in the same period in 2010, largely as a result of decreases in compensation and employee benefits, asset impairment, rent, taxes and licenses, and amortization of intangible assets, partly offset by higher professional and other contracted services, repairs and maintenance, insurance and security services, and depreciation and amortization.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php24,107	57	Php25,758	60	(Php1,651)	(6)
Fixed line	18,387	43	18,723	43	(336)	(2)
Information and communications technology	5,149	12	5,277	12	(128)	(2)
Inter-segment transactions	(5,108)	(12)	(6,457)	(15)	1,349	(21)
Consolidated	Php42,535	100	Php43,301	100	(Php766)	(2)

Consolidated other expenses in the first half of 2011 amounted to Php153 million, a decrease of Php376 million, or 71%, from Php529 million in the same period in 2010 primarily due to the combined effects of the following: (i) net foreign exchange gains of Php426 million in the first half of 2011 as compared to net foreign exchange losses of Php59 million in the same period in 2010 due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) a decrease in net financing costs by Php273 million mainly due to lower interest on loans and other related items on account of PLDT's and Smart's lower average loan balances, partially offset by higher accretion on amortization of debt issuance costs and debt discount; (iii) an increase in other income by Php77 million mainly due to pension benefit income recognized by PLDT, partially offset by lower gain on disposal of fixed assets; (iv) higher interest income by Php33 million due to a higher average level of peso short-term investments and a higher average interest rate; (v) net decrease in equity share in net earnings of associates and joint ventures of Php42 million; and (vi) lower net gains on derivative financial instruments by Php450 million due to lower mark-to-market valuation as a result of the appreciation of the Philippine peso relative to the U.S. dollar in the first half of 2011, partially offset by lower hedge costs mainly due to the offsetting effect of overlay transactions in the first half of 2011.

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

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php271	(177)	(Php46)	9	Php317	(689)
Fixed line	(519)	339	(420)	79	(99)	24
Information and communications technology	196	(128)	66	(12)	130	197
Inter-segment transactions	(101)	66	(129)	24	28	(22)
Consolidated	(Php153)	100	(Php529)	100	Php376	(71)

Consolidated net income decreased by Php325 million, or 2%, to Php21,296 million in the first half of 2011 from Php21,621 million in the same period in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php2,425 million; (ii) a decrease in the consolidated provision for income tax by Php958 million, which was mainly due to lower taxable income from our fixed line and wireless businesses; (iii) a decrease in consolidated expenses by Php766 million; and (iv) a decrease in consolidated other expenses by Php376 million.

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

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php17,115	80	Php16,766	78	Php349	2
Fixed line	3,512	17	4,550	21	(1,038)	(23)
Information and communications technology	669	3	305	1	364	119
Consolidated	Php21,296	100	Php21,621	100	(Php325)	(2)

EBITDA

Our consolidated EBITDA was Php41,512 million in the first half of 2011, a decrease of Php1,745 million, or 4%, as compared with Php43,257 million in the same period in 2010 primarily due to a decline in service revenues from our wireless and fixed line businesses, partly offset by lower cash operating expenses, mainly compensation and employee benefits, rent, and taxes and licenses, and lower provision for uncollectible receivables.

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

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php29,039	70	Php29,704	69	(Php665)	(2)
Fixed line	11,393	27	12,668	29	(1,275)	(10)
Information and communications technology	979	3	756	2	223	29
Inter-segment transactions	101	–	129	–	(28)	(22)
Consolidated	Php41,512	100	Php43,257	100	(Php1,745)	(4)

Core Income

Our consolidated core income was Php21,023 million in the first half of 2011, a decrease of Php207 million, or 1%, as compared with Php21,230 million in the same period in 2010 primarily due to a decrease in consolidated revenues, partially offset by decreases in consolidated expenses and consolidated provision for income tax. Our consolidated basic core EPS also decreased to Php111.35 in the first half of 2011 from Php112.43 in the same period in 2010 and our consolidated diluted core EPS decreased to Php111.30 in the first half of 2011 from Php112.39 in the same period in 2010. Our weighted average number of outstanding common shares was approximately 186.8 million in each of the six months ended June 30, 2011 and 2010.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php17,428	83	Php17,133	81	Php295	2
Fixed line	2,939	14	3,753	18	(814)	(22)
Information and communications technology	656	3	344	1	312	91
Consolidated	Php21,023	100	Php21,230	100	(Php207)	(1)

On a Business Segment Basis

Wireless

Revenues

Revenues generated from our wireless business amounted to Php46,334 million in the first half of 2011, a decrease of Php2,287 million, or 5%, from Php48,621 million in the same period in 2010.

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

	2011	%	2010	%	Decrease Amount	Decrease %
			(in millions)			
Service Revenues:						
Cellular	Php42,192	91	Php44,076	91	(Php1,884)	(4)
Wireless broadband, satellite and others						
Wireless broadband	3,186	7	3,203	6	(17)	(1)
Satellite and others	360	1	597	1	(237)	(40)
	45,738	99	47,876	98	(2,138)	(4)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	596	1	745	2	(149)	(20)
Total Wireless Revenues	Php46,334	100	Php48,621	100	(Php2,287)	(5)

Service Revenues

Our wireless service revenues decreased by Php2,138 million, or 4%, to Php45,738 million in the first half of 2011 as compared with Php47,876 million in the same period in 2010, mainly as a result of lower revenues from our cellular, broadband, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as domestic text messaging services on the back of pervasive multiple SIM card ownership and increasing patronage of social networking sites, partially offset by an increase in international short messaging service, or SMS, as well as higher value-added services, or VAS, revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.52 for the six months ended June 30, 2011 from Php45.78 for the six months ended June 30, 2010. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for the first half of 2011 were lower as compared with the same period in 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues increased to 99% in the first half of 2011 from 98% in the same period in 2010.

Cellular Service

Our cellular service revenues in the first half of 2011 amounted to Php42,192 million, a decrease of Php1,884 million, or 4%, from Php44,076 million in the same period in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in each of the first half of 2011 and 2010.

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

			Decrease	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Cellular service revenues	Php42,192	Php44,076	(Php1,884)	(4)
By service type	*41,007*	*42,771*	*(1,764)*	*(4)*
Prepaid	37,862	39,371	(1,509)	(4)
Postpaid	3,145	3,400	(255)	(8)
By component	*41,007*	*42,771*	*(1,764)*	*(4)*
Voice	19,916	21,510	(1,594)	(7)
Data	21,091	21,261	(170)	(1)
Others[(1)]	*1,185*	*1,305*	*(120)*	*(9)*

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

	2011	2010	Increase (Decrease) Amount	%
Cellular subscriber base	47,834,533	45,345,998	2,488,535	5
Prepaid	47,404,197	44,906,154	2,498,043	6
Smart Buddy	*26,079,785*	*25,764,292*	*315,493*	*1*
Talk 'N Text	*19,777,498*	*18,008,072*	*1,769,426*	*10*
Red Mobile	*1,546,914*	*1,133,790*	*413,124*	*36*
Postpaid	430,336	439,844	(9,508)	(2)
Smart	*429,752*	*439,844*	*(10,092)*	*(2)*
Red Mobile(1)	*584*	–	*584*	*100*
Systemwide traffic volumes (in millions)				
Calls (in minutes)	17,742	12,985	4,757	37
Domestic	16,200	11,449	4,751	41
Inbound	*700*	*736*	*(36)*	*(5)*
Outbound	*15,500*	*10,713*	*4,787*	*45*
International	1,542	1,536	6	–
Inbound	*1,445*	*1,430*	*15*	*1*
Outbound	*97*	*106*	*(9)*	*(8)*
SMS/Data count (in hits)	161,477	179,608	(18,131)	(10)
Text messages	160,610	178,861	(18,251)	(10)
Domestic	160,314	178,613	(18,299)	(10)
Inbound	*4,316*	*3,893*	*423*	*11*
Outbound	*155,998*	*174,720*	*(18,722)*	*(11)*
Bucket-Priced	146,961	165,498	(18,537)	(11)
Standard	9,037	9,222	(185)	(2)
International	296	248	48	19
Inbound	*157*	*91*	*66*	*73*
Outbound	*139*	*157*	*(18)*	*(11)*
Value-Added Services	851	736	115	16
Financial Services	16	11	5	45

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

Revenues attributable to our prepaid cellular services amounted to Php37,862 million in the first half of 2011, a decrease of Php1,509 million, or 4%, as compared with Php39,371 million in the same period in 2010. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of the first half of 2011 and 2010. Revenues attributable to Smart's postpaid cellular service amounted to Php3,145 million in the first half of 2011, a decrease of Php255 million, or 8%, as compared with Php3,400 million earned in the same period in 2010, and accounted for 8% of cellular voice and data revenues in each of the first half of 2011 and 2010.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php1,594 million, or 7%, to Php19,916 million in the first half of 2011 from Php21,510 million in the same period in 2010 primarily due to a decrease in international and domestic call revenues. Cellular voice services accounted for 47% and 49% of our cellular service revenues in the first half of 2011 and 2010, respectively.

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

	2011	2010	Decrease Amount	Decrease %
		(in millions)		
Voice services:				
Domestic				
Inbound	Php2,575	Php2,632	(Php57)	(2)
Outbound	9,512	10,327	(815)	(8)
	12,087	12,959	(872)	(7)
International				
Inbound	7,039	7,626	(587)	(8)
Outbound	790	925	(135)	(15)
	7,829	8,551	(722)	(8)
Total	Php19,916	Php21,510	(Php1,594)	(7)

Domestic voice service revenues decreased by Php872 million, or 7%, to Php12,087 million in the first half of 2011 from Php12,959 million in the same period in 2010 primarily due to a decrease in domestic outbound call revenues by Php815 million, or 8%, to Php9,512 million in the first half of 2011 from Php10,327 million in the same period in 2010 mainly due to lower yield and a decrease in traffic volume of standard calls, partly offset by increased revenues from higher traffic volume of bucket calls. In addition, revenues from our domestic inbound voice service decreased by Php57 million, or 2%, to Php2,575 million in the first half of 2011 from Php2,632 million in the same period in 2010 as a result of a decrease in revenues from incoming fixed line calls. Domestic outbound call volumes increased by 4,787 million minutes, or 45%, to 15,500 million minutes in the first half of 2011 from 10,713 million minutes in the same period in 2010, while domestic inbound call volumes decreased by 36 million minutes, or 5%, to 700 million minutes in the first half of 2011 from 736 million minutes in the same period in 2010. The overall increase was mainly due to higher call volumes resulting from unlimited voice offerings.

International voice service revenues decreased by Php722 million, or 8%, to Php7,829 million in the first half of 2011 from Php8,551 million in the same period in 2010 primarily due to a decline in international inbound voice service revenues by Php587 million, or 8%, to Php7,039 million in the first half of 2011 from Php7,626 million in the same period in 2010, as well as a decline in international outbound voice service revenues by Php135 million, or 15%, to Php790 million in the first half of 2011 from Php925 million in the same period in 2010. The decline in international voice service revenues was due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.52 for the six months ended June 30, 2011 from Php45.78 for the six months ended June 30, 2010. Conversely, international inbound and outbound calls totaled 1,542 million minutes in the first half of 2011, an increase of 6 million minutes as compared with 1,536 million minutes in the same period in 2010 mainly due to an increase in our cellular subscriber base.

Smartalk, Smart's unlimited voice offering, is available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart network. 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 Php170 million, or 1%, to Php21,091 million in the first half of 2011 from Php21,261 million in the same period in 2010. Cellular data services accounted for 50% and 48% of our cellular service revenues in the first half of 2011 and 2010, respectively.

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

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php18,338	Php19,337	(Php999)	(5)
Bucket-Priced	*11,319*	*12,146*	*(827)*	*(7)*
Standard	*7,019*	*7,191*	*(172)*	*(2)*
International	1,165	676	489	72
	19,503	20,013	(510)	(3)
Value-added services				
Internet-based[1]	498	345	153	44
MMS-based[2]	398	345	53	15
SMS-based[3]	318	334	(16)	(5)
Pasaload[4]	353	206	147	71
	1,567	1,230	337	27
Financial services	21	18	3	17
Total	Php21,091	Php21,261	(Php170)	(1)

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

Text messaging-related services contributed revenues of Php19,503 million in the first half of 2011, a decrease of Php510 million, or 3%, as compared with Php20,013 million in the same period in 2010, and accounted for 92% and 94% of our total cellular data revenues in the first half of 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS traffic although SMS yields have stabilized. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced plans totaled Php11,319 million in the first half of 2011, a decrease of Php827 million, or 7%, as compared with Php12,146 million in the same period in 2010. Standard text messaging revenues decreased by Php172 million, or 2%, to Php7,019 million in the first half of 2011 from Php7,191 million in the same period in 2010. On the other hand, the increase in international text messaging revenues was mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

Bucket-priced text messages decreased by 18,537 million, or 11%, to 146,961 million in the first half of 2011 from 165,498 million in the same period in 2010. Standard text messages also declined by 185 million, or 2%, to 9,037 million in the first half of 2011 from 9,222 million in the same period in 2010. Lower usage of these services was due to the increasing popularity of social networking sites.

VAS contributed revenues of Php1,567 million in the first half of 2011, an increase of Php337 million, or 27%, as compared with Php1,230 million in the same period in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php153 million, or 44%, to Php498 million in the first half of 2011 from Php345 million in the same period in 2010, and *Pasa Load* by Php147 million, or 71%, to Php353 million in the first half of 2011 from Php206 million in the same period in 2010.

Subscriber Base, ARPU and Churn Rates

As at June 30, 2011, Smart, including *Talk 'N Text* and *Red Mobile* subscribers totaled 47,834,533, an increase of 2,488,535, or 5%, over their combined cellular subscriber base of 45,345,998 as at June 30, 2010. Our cellular prepaid subscriber base grew by 2,498,043, or 6%, to 47,404,197 as at June 30, 2011 from 44,906,154 as at June 30, 2010, while our cellular postpaid subscriber base decreased by 9,508, or 2%, to 430,336 as at June 30, 2011 from 439,844 as at June 30, 2010. Prepaid subscribers accounted for 99% each of our total subscriber base as at June 30, 2011 and 2010.

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

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Prepaid	2,189,764	4,013,056	(1,823,292)	(45)
Smart Buddy	*786,342*	*2,001,478*	*(1,215,136)*	*(61)*
Talk 'N Text	*810,117*	*957,359*	*(147,242)*	*(15)*
Red Mobile	*593,305*	*1,054,219*	*(460,914)*	*(44)*
Postpaid	8,761	4,301	4,460	104
Smart	*8,177*	*4,301*	*3,876*	*90*
Red Mobile	*584*	*–*	*584*	*100*
Total	2,198,525	4,017,357	(1,818,832)	(45)

Prepaid and postpaid subscribers reflected net activations of 2,189,764 and 8,761, respectively, in the first half of 2011 as compared with net activations of 4,013,056 and 4,301, respectively, in the same period in 2010.

For *Smart Buddy* subscribers, the average monthly churn rate in the first half of 2011 and 2010 were 4.8% and 4.4%, respectively, while the average monthly churn rate for *Talk ’N Text* subscribers were 5.4% and 5.3% in the first half of 2011 and 2010, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 11.3% and 2.6% in the first half of 2011 and 2010, respectively.

The average monthly churn rate for Smart’s postpaid subscribers were 2.3% and 1.7% for the first half of 2011 and 2010, respectively. Smart’s policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

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

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
Smart Buddy	Php204	Php228	(Php24)	(11)	Php162	Php182	(Php20)	(11)
Talk ’N Text	127	140	(13)	(9)	106	116	(10)	(9)
Red Mobile	37	8	29	363	32	6	26	433
Prepaid – Blended[3]	168	190	(22)	(12)	135	153	(18)	(12)
Postpaid								
Smart	1,624	1,675	(51)	(3)	1,205	1,271	(66)	(5)
Red Mobile	343	–	343	100	343	–	343	100
Postpaid – Blended	1,623	1,675	(52)	(3)	1,205	1,271	(66)	(5)
Prepaid and Postpaid Blended[4]	181	205	(24)	(12)	145	164	(19)	(12)

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

Prepaid service revenues consist mainly of charges for the subscribers’ actual usage of their loads. Prepaid blended gross average monthly ARPU in the first half of 2011 was Php168, a decrease of 12%, as compared with Php190 in the same period in 2010. The decrease was primarily due to a decline in the average domestic outbound call and text messaging revenue per subscriber, as well as a drop in the average international inbound voice revenue per subscriber in the first half of 2011 as compared with the same period in 2010. On a net basis, prepaid blended average monthly ARPU in the first half of 2011 was Php135, a decrease of 12%, as compared with Php153 in the same period in 2010.

Postpaid blended gross and net average monthly ARPU decreased to Php1,623 and Php1,205, respectively, in the first half of 2011 as compared with Php1,675 and Php1,271, respectively, in the same period in 2010. Prepaid and postpaid gross average monthly blended ARPU was Php181 in the first half of 2011, a decrease of 12%, as compared with Php205 in the same period in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 12% to Php145 in the first half of 2011 from Php164 in the same period in 2010.

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

	Prepaid						**Postpaid**			
	Smart Buddy		**Talk 'N Text**		**Red Mobile**		**Smart**		**Red Mobile**	
	Gross[(1)]	**Net[(2)]**	**Gross[(1)]**	**Net[(2)]**	**Gross[(1)]**	**Net[(2)]**	**Gross[(1)]**	**Net[(2)]**	**Gross[(1)]**	**Net[(2)]**
2011										
First Quarter	Php205	Php163	Php129	Php106	Php32	Php27	Php1,610	Php1,205	Php133	Php133
Second Quarter	203	162	126	105	43	37	1,638	1,206	413	413
2010										
First Quarter	232	184	140	115	11	8	1,686	1,286	–	–
Second Quarter	224	179	141	116	4	3	1,665	1,257	–	–
Third Quarter	207	163	135	112	6	5	1,661	1,229	–	–
Fourth Quarter	215	171	140	116	22	19	1,702	1,256	–	–

(1) *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 decreased by Php17 million, or 1%, to Php3,186 million in the first half of 2011 from Php3,203 million in the same period in 2010, primarily due to a lower postpaid subscriber base.

SBI offers a number of wireless broadband services and had a total of 1,491,700 subscribers as at June 30, 2011, an increase of 168,336 subscribers, or 13%, as compared with 1,323,364 subscribers as at June 30, 2010. Our postpaid wireless broadband subscriber base decreased by 11,600 subscribers, or 3%, to 444,210 subscribers as at June 30, 2011 from 455,810 subscribers as at June 30, 2010, while our prepaid wireless broadband subscriber base increased by 179,936 subscribers, or 21%, to 1,047,490 subscribers as at June 30, 2011 from 867,554 subscribers as at June 30, 2010.

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

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

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php237 million, or 40%, to Php360 million in the first half of 2011 from Php597 million in the same period in 2010, primarily due to the sale of Mabuhay Satellite's transponders on July 1, 2010 and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.52 for the six months ended June 30, 2011 from Php45.78 for the six months ended June 30, 2010 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php149 million, or 20%, to Php596 million in the first half of 2011 as compared with Php745 million in the same period in 2010 primarily due to the lower quantity of broadband data modems sold.

Expenses

Expenses associated with our wireless business in the first half of 2011 amounted to Php24,107 million, a decrease of Php1,651 million, or 6%, from Php25,758 million in the same period in 2010. A significant portion of this decrease was attributable to lower expenses related to rent, compensation and employee benefits, cost of sales, and taxes and licenses, partially offset by higher expenses related to repairs and maintenance, insurance and security services, and selling and promotions. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 53% in the first half of 2011 and 2010, respectively.

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

					Increase (Decrease)	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php6,758	28	Php6,781	26	(Php23)	–
Rent	4,070	17	5,439	21	(1,369)	(25)
Compensation and employee benefits[(1)]	2,943	12	3,210	12	(267)	(8)
Repairs and maintenance	2,592	11	2,450	10	142	6
Selling and promotions	1,993	8	1,940	8	53	3
Cost of sales	1,764	7	1,919	7	(155)	(8)
Professional and other contracted services	1,448	6	1,467	6	(19)	(1)
Taxes and licenses	797	3	901	4	(104)	(12)
Communication, training and travel	483	2	462	2	21	5
Insurance and security services	414	2	344	1	70	20
Asset impairment	321	2	346	1	(25)	(7)
Amortization of intangible assets	54	–	47	–	7	15
Other expenses	470	2	452	2	18	4
Total	Php24,107	100	Php25,758	100	(Php1,651)	(6)

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

Depreciation and amortization charges decreased by Php23 million to Php6,758 million in the first half of 2011 principally due to lower depreciation charges on broadband network facilities.

Rent expenses decreased by Php1,369 million, or 25%, to Php4,070 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in domestic leased circuits, partially offset by the increase in cell site rental charges. In the first half of 2011, we had 6,055 cell sites, 10,442 cellular/mobile broadband base stations and 2,684 fixed wireless broadband-enabled base stations, as compared with 5,643 cell sites, 9,727 cellular/mobile broadband base stations and 2,019 fixed wireless broadband-enabled base stations in the same period in 2010.

Compensation and employee benefits expenses decreased by Php267 million, or 8%, to Php2,943 million primarily due to lower salaries and employee benefits, as a result of lower headcount, and lower MRP costs, partially offset by the higher provision for pension benefits and LTIP. Employee headcount decreased to 5,069 in the first half of 2011 as compared with 5,405 in the same period in 2010.

Repairs and maintenance expenses increased by Php142 million, or 6%, to Php2,592 million mainly due to higher electricity and fuel costs for power generation and an increase in computer hardware and building maintenance expenses, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Selling and promotion expenses increased by Php53 million, or 3%, to Php1,993 million primarily due to higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Cost of sales decreased by Php155 million, or 8%, to Php1,764 million primarily due to lower quantity and average cost of broadband modems sold, partly offset by higher broadband and cellular retention costs.

Professional and other contracted service fees decreased by Php19 million, or 1%, to Php1,448 million primarily due to lower management fees, legal fees, customer relationship management service fees and technical service fees, partly offset by the increase in consultancy fees, contracted service fees, corporate membership fees and outsourced service fees.

Taxes and licenses decreased by Php104 million, or 12%, to Php797 million primarily due to lower non-creditable input taxes and business-related taxes and license fees.

Communication, training and travel expenses increased by Php21 million, or 5%, to Php483 million primarily due to higher travel expenses, courier charges and fuel consumption for vehicles, partially offset by lower communication, hauling and training expenses.

Insurance and security services increased by Php70 million, or 20%, to Php414 million primarily due to higher site security expense and insurance premiums.

Asset impairment decreased by Php25 million, or 7%, to Php321 million primarily due to lower provision for uncollectible receivables.

Amortization of intangible assets increased by Php7 million, or 15%, to Php54 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses increased by Php18 million, or 4%, to Php470 million primarily due to higher various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the six months ended June 30, 2011 and 2010:

	2011	2010	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php737	Php784	(Php47)	(6)
Interest income	383	354	29	8
Foreign exchange gains (losses) – net	284	(105)	389	(370)
Financing costs – net	(1,367)	(1,344)	(23)	2
Losses on derivative financial instruments – net	–	(1)	1	100
Others	234	266	(32)	(12)
Total	Php271	(Php46)	Php317	689

Our wireless business' other income amounted to Php271 million in the first half of 2011, as compared with other expenses of Php46 million in the same period in 2010 primarily due to the combined effects of the following: (i) net foreign exchange gains of Php284 million in the first half of 2011 as compared with net foreign exchange loss of Php105 million in the same period in 2010 on account of revaluation of foreign currency-denominated assets and liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) increase in interest income by Php29 million mainly due to a higher average level of peso short-term investments and a higher average interest rate in the first half of 2011; (iii) decrease in equity share in net earnings of associates by Php47 million in the first half of 2011 mainly due to PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco offset against the increase in PCEV's direct and indirect share in the net earnings of Meralco; (iv) higher net financing costs by Php23 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level of loan balances and lower interest, and foreign exchange rates; and (v) decrease in other income by Php32 million mainly due to lower income from consultancy, gains on insurance claims and disposal of fixed assets.

For the six months ended June 30, 2011, Meralco's reported and core income amounted to Php6,091 million and Php7,822 million, respectively, as compared with Php4,851 million and Php5,805 million, respectively, in the same period in 2010. These results were due to the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission as compared with the first half of 2010. The results of PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's results of operations, amounted to Php757 million and Php1,215 million, respectively, in the first half of 2011 and Php783 million and Php1,010 million, respectively, in the same period in 2010.

Provision for Income Tax

Provision for income tax decreased by Php668 million, or 11%, to Php5,383 million in the first half of 2011 from Php6,051 million in the same period in 2010 due to lower taxable income. The effective tax rate for our wireless business was 24% in the first half of 2011 as compared with 27% in the same period in 2010.

Net Income

Our wireless business recorded a net income of Php17,115 million in the first half of 2011, an increase of Php349 million, or 2%, from Php16,766 million recorded in the same period in 2010 on account of a decrease in wireless-related expenses by Php1,651 million, lower provision for income tax by Php668 million and an increase in other income by Php317 million, partially offset by a decrease in wireless revenues by Php2,287 million.

EBITDA

Our wireless business' EBITDA decreased by Php665 million, or 2%, to Php29,039 million in the first half of 2011 from Php29,704 million in the same period in 2010 primarily due to a decline in our wireless revenues, partly offset by lower cash operating expenses particularly rent, compensation and employee benefits, cost of sales, and taxes and licenses.

Core Income

Our wireless business' core income increased by Php295 million, or 2%, to Php17,428 million in the first half of 2011 from Php17,133 million in the same period in 2010 on account of a decrease in wireless-related expenses and lower provision for income tax, partially offset by a decrease in wireless revenues and lower other income.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php23,784 million in the first half of 2011, a decrease of Php1,633 million, or 6%, from Php25,417 million in the same period in 2010.

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

					Increase (Decrease)	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Local exchange	Php7,445	31	Php7,764	31	(Php319)	(4)
International long distance	2,396	10	2,690	11	(294)	(11)
National long distance	2,055	9	2,351	9	(296)	(13)
Data and other network	10,834	46	11,578	45	(744)	(6)
Miscellaneous	751	3	854	3	(103)	(12)
	23,481	99	25,237	99	(1,756)	(7)
Non-Service Revenues:						
Sale of computers, *PLDT Landline Plus*, or *PLP*, units and SIM cards	303	1	180	1	123	68
Total Fixed Line Revenues	Php23,784	100	Php25,417	100	(Php1,633)	(6)

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php1,756 million, or 7%, to Php23,481 million in the first half of 2011 from Php25,237 million in the same period in 2010 due to a decrease across our fixed line service revenues.

Local Exchange Service

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

	2011	2010	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php7,445	Php7,764	(Php319)	(4)
Number of fixed line subscribers	1,856,890	1,862,992	(6,102)	–
Postpaid	1,754,165	1,716,684	37,481	2
Prepaid	102,725	146,308	(43,583)	(30)
Number of fixed line employees	7,410	8,056	(646)	(8)
Number of fixed line subscribers per employee	251	231	20	9

Revenues from our local exchange service decreased by Php319 million, or 4%, to Php7,445 million in the first half of 2011 from Php7,764 million in the same period in 2010 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation and service connection charges, as well as a decrease in the average number of postpaid wired lines as a result of higher disconnections, partially offset by the increase in postpaid *PLP* lines. *PLP* wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 32% and 31% in the first half of 2011 and 2010, respectively.

International Long Distance Service

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

	2011	2010	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php2,396	Php2,690	(Php294)	(11)
Inbound	2,028	2,239	(211)	(9)
Outbound	368	451	(83)	(18)
International call volumes (in million minutes, except call ratio)	951	921	30	3
Inbound	865	815	50	6
Outbound	86	106	(20)	(19)
Inbound-outbound call ratio	10.1:1	7.7:1	–	–

Our total international long distance service revenues decreased by Php294 million, or 11%, to Php2,396 million in the first half of 2011 from Php2,690 million in the same period in 2010 primarily due to the decrease in the average settlement rate, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.52 for the six months ended June 30, 2011 from Php45.78 for the six months ended June 30, 2010 and the decrease in outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 10% and 11% in the first half of 2011 and 2010, respectively.

Our revenues from inbound international long distance service decreased by Php211 million, or 9%, to Php2,028 million in the first half of 2011 from Php2,239 million in the same period in 2010 due to the decrease in the average settlement rate and the effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by an increase in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php83 million, or 18%, to Php368 million in the first half of 2011 from Php451 million in the same period in 2010 primarily due to the decline in outbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.52 for the six months ended June 30, 2011 from Php45.78 for the six months ended June 30, 2010, resulting in a decrease in the average billing rates to Php43.62 in the first half of 2011 from Php45.79 in the same period in 2010, partially offset by the increase in average collection rate in dollar terms.

National Long Distance Service

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

			Decrease	
	2011	**2010**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php2,055	Php2,351	(Php296)	(13)
National long distance call volumes (in million minutes)	558	679	(121)	(18)

Our national long distance service revenues decreased by Php296 million, or 13%, to Php2,055 million in the first half of 2011 from Php2,351 million in the same period in 2010 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% in each of the first half of 2011 and 2010.

Data and Other Network Services

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

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Data and other network service revenues (in millions)	Php10,834	Php11,578	(Php744)	(6)
Domestic	8,021	8,634	(613)	(7)
Broadband	*4,692*	*4,150*	*542*	*13*
DSL	4,553	4,036	517	13
WeRoam	139	114	25	22
Leased Lines and Others	*3,329*	*4,484*	*(1,155)*	*(26)*
International				
Leased Lines and Others	*2,813*	*2,944*	*(131)*	*(4)*
Subscriber base:				
Broadband	*720,519*	*627,331*	*93,188*	*15*
DSL	698,921	609,143	89,778	15
WeRoam	21,598	18,188	3,410	19
SWUP	*18,983*	*13,893*	*5,090*	*37*

Our data and other network services posted revenues of Php10,834 million in the first half of 2011, a decrease of Php744 million, or 6%, from Php11,578 million in the same period in 2010 primarily due to a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service, and the decrease in international data revenues resulting from the termination of transponder sub-lease agreement with customers, as well as lower revenues from i-Gate, partially offset by an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*. The percentage contribution of this service segment to our fixed line service revenues accounted for 46% in each of the first half of 2011 and 2010.

Domestic

Domestic data services contributed Php8,021 million in the first half of 2011, a decrease of Php613 million, or 7%, as compared with Php8,634 million in the same period in 2010 mainly due to lower Diginet revenues, partially offset by the continued growth in DSL, *Shops.Work Unplugged*, or *SWUP*, and internet protocol-virtual private network, or IP-VPN subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services decreased to 74% in the first half of 2011 from 75% in the same period in 2010.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php4,692 million in the first half of 2011, an increase of Php542 million, or 13%, from Php4,150 million in the same period in 2010 primarily due to the higher revenue contribution of DSL which contributed revenues of Php4,553 million in the first half of 2011 from Php4,036 million in the same period in 2010 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 42% and 35% of total data and other network service revenues in the first half of 2011 and 2010, respectively. DSL subscribers increased by 15% to 698,921 subscribers as at June 30, 2011 from 609,143 subscribers in the same period in 2010. *WeRoam* revenues amounted to Php139 million in the first half of 2011 from Php114 million in the same period in 2010 as subscribers increased by 19% to 21,598 subscribers in first half of 2011 from 18,188 subscribers in the same period in 2010.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at June 30, 2011, *SWUP* has a total subscriber base of 18,983 up by 37% from 13,893 subscribers in the same period in 2010. Leased lines and other data revenues amounted to Php3,329 million in the first half of 2011, a decrease of Php1,155 million, or 26%, from Php4,484 million in the same period in 2010 primarily due to a decrease in Diginet revenues, partially offset by the higher revenues from IP-VPN. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 31% and 39% in the first half of 2011 and 2010, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; (3) sub-lease transponder service; and (4) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues decreased by Php131 million, or 4%, to Php2,813 million in the first half of 2011 from Php2,944 million in the same period in 2010 primarily resulting from the termination of transponder sub-lease agreement with customers, a decrease in revenues from i-Gate, Fibernet and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar, partially offset by the growth in international managed data services. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 26% and 25% in the first half of 2011 and 2010, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues decreased by Php103 million, or 12%, to Php751 million in the first half of 2011 from Php854 million in the same period in 2010 mainly due to a decrease in directory advertising and facilities management fees, partially offset by higher rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first half of 2011 and 2010.

Non-service Revenues

Non-service revenues increased by Php123 million, or 68%, to Php303 million in the first half of 2011 from Php180 million in the same period in 2010 primarily due to the sale of several managed PABX and *OnCall* solution in the first half of 2011 and higher computer-bundled sales.

Expenses

Expenses related to our fixed line business totaled Php18,387 million in the first half of 2011, a decrease of Php336 million, or 2%, as compared with Php18,723 million in the same period in 2010. The decrease was primarily due to lower expenses related to asset impairment, compensation and employee benefits, repairs and maintenance, rent, and selling and promotions, partly offset by higher expenses related to professional and other contracted services, cost of sales, and depreciation and amortization. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 77% and 74% in the first half of 2011 and 2010, respectively.

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

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php5,989	33	Php5,896	31	Php93	2
Compensation and employee benefits[(1)]	4,710	26	5,020	27	(310)	(6)
Repairs and maintenance	2,064	11	2,152	12	(88)	(4)
Professional and other contracted services	1,742	9	1,490	8	252	17
Rent	1,258	7	1,306	7	(48)	(4)
Selling and promotions	655	3	679	4	(24)	(4)
Asset impairment	478	3	836	4	(358)	(43)
Taxes and licenses	341	2	351	2	(10)	(3)
Cost of sales	337	2	186	1	151	81
Communication, training and travel	275	1	265	1	10	4
Insurance and security services	231	1	219	1	12	5
Amortization of intangible assets	7	–	–	–	7	100
Other expenses	300	2	323	2	(23)	(7)
Total	Php18,387	100	Php18,723	100	(Php336)	(2)

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

Depreciation and amortization charges increased by Php93 million, or 2%, to Php5,989 million due to a higher depreciable asset base in the first half of 2011 as compared with the same period in 2010.

Compensation and employee benefits expenses decreased by Php310 million, or 6%, to Php4,710 million primarily due to lower salaries and employee benefits as a result of a lower headcount, as well as lower provisions for pension costs, and LTIP costs, partially offset by higher MRP costs. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions* and *Note 24 – Employee Benefits* to the accompanying unaudited consolidated financial statements for further discussion.

Repairs and maintenance expenses decreased by Php88 million, or 4%, to Php2,064 million primarily due to decreases in maintenance costs on buildings, cable and wire facilities, and IT software.

Professional and other contracted services increased by Php252 million, or 17%, to Php1,742 million primarily due to higher consultancy fees, contracted services and technical service fees for customer relationship management outsourcing project services, partially offset by lower payment facility and collection agency fees.

Rent expenses decreased by Php48 million, or 4%, to Php1,258 million due to a decrease in satellite link and international leased circuit rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Selling and promotion expenses decreased by Php24 million, or 4%, to Php655 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations expenses.

Asset impairment decreased by Php358 million, or 43%, to Php478 million mainly due to lower provision for uncollectible receivables.

Taxes and licenses decreased by Php10 million, or 3%, to Php341 million as a result of lower business-related taxes.

Cost of sales increased by Php151 million, or 81%, to Php337 million primarily due to the sale of several managed PABX and *OnCall* solution in the first half of 2011; no similar transaction was recognized in the same period in 2010, as well as higher computer-bundled sales in relation to our DSL promotion.

Communication, training and travel expenses increased by Php10 million, or 4%, to Php275 million mainly due to increases in foreign and local training expenses, communication charges and fuel consumption, partially offset by lower local travel and training expenses.

Insurance and security services increased by Php12 million, or 5%, to Php231 million primarily due to higher security services, partly offset by lower insurance and bond premiums.

Amortization of intangible assets amounted to Php7 million in the first half of 2011 primarily due to amortization of intangible assets related to the acquisition of customer list from PDSI.

Other expenses decreased by Php23 million, or 7%, to Php300 million due to decreases in various business and fixed line operational-related expenses.

Other Income

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

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains on derivative financial instruments – net	Php484	Php934	(Php450)	(48)
Interest income	245	252	(7)	(3)
Foreign exchange gains – net	145	51	94	184
Financing costs – net	(1,786)	(2,029)	243	(12)
Others	393	372	21	6
Total	(Php519)	(Php420)	(Php99)	24

Our fixed line business' other expenses amounted to Php519 million in the first half of 2011, an increase of Php99 million, or 24%, from Php420 million in the same period in 2010. The change was due to the combined effects of the following: (i) lower net gains on derivative financial instruments by Php450 million in the first half of 2011 due to lower mark-to-market valuation as a result of the increase in dollar interest rates, partially offset by lower hedge costs mainly due to the offsetting effect of overlay transactions in the first half of 2011; (ii) a decrease in interest income by Php7 million due to a lower average level of cash balances and the impact of the appreciation of the Philippine peso on dollar placements; (iii) increase in other income by Php21 million mainly due to the pension benefit income recognized by PLDT, partially offset by the loss on disposal of fixed assets; (iv) net increase in foreign exchange gains by Php94 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; and (v) a decrease in net financing costs by Php243 million due to a decrease in interest expense on loans and related items on account of a lower average level of loan balances of PLDT, higher capitalized interest and lower level of average interest rate.

Provision for Income Tax

Provision for income tax amounted to Php1,366 million in the first half of 2011, a decrease of Php358 million, or 21%, as compared with Php1,724 million in the same period in 2010 primarily due to lower taxable income. The effective tax rate of our fixed line business was 28% in the first half of 2011 from 27% in the same period in 2010.

Net Income

Our fixed line business contributed a net income of Php3,512 million in the first half of 2011, a decrease of Php1,038 million, or 23%, as compared with Php4,550 million in the same period in 2010 primarily as a result of decreases in fixed line revenues by Php1,633 million and higher other expenses by Php99 million, partially offset by lower provision for income tax by Php358 million and lower fixed line-related expenses by Php336 million.

EBITDA

Our fixed line business' EBITDA decreased by Php1,275 million, or 10%, to Php11,393 million in the first half of 2011 from Php12,668 million in the same period in 2010 primarily due to a decline in revenues from all our fixed line services, partly offset by lower provision for uncollectible receivables and lower cash operating expenses, mainly compensation and employee benefits, repairs and maintenance, rent, and selling and promotions.

Core Income

Our fixed line business' core income decreased by Php814 million, or 22%, to Php2,939 million in the first half of 2011 from Php3,753 million in the same period in 2010 primarily as a result of the decrease in fixed line revenues, partially offset by decreases in fixed line operating expenses and financing costs.

Information and Communications Technology

Revenues

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

Our ICT business generated revenues of Php5,671 million in the first half of 2011, an increase of Php174 million, or 3%, as compared with Php5,497 million in the same period in 2010. This increase was primarily due to higher revenue contributions of our knowledge processing solutions, data center and other businesses, and point-product sales, partially offset by a decline in the revenue contribution of our customer relationship management, and internet and online gaming businesses.

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

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php2,744	48	Php2,502	46	Php242	10
Customer relationship management	1,382	24	1,526	28	(144)	(9)
Internet and online gaming	469	8	520	9	(51)	(10)
Data center and others	820	15	714	13	106	15
	5,415	95	5,262	96	153	3
Non-Service Revenues:						
Point-product sales	256	5	235	4	21	9
Total ICT Revenues	Php5,671	100	Php5,497	100	Php174	3

Service Revenues

Service revenues generated by our ICT business amounted to Php5,415 million in the first half of 2011, an increase of Php153 million, or 3%, as compared with Php5,262 million in the same period in 2010 primarily as a result of the continued growth in our knowledge processing solutions, and data center and other businesses, partially offset by a decline in our customer relationship management, and internet and online gaming businesses. As a percentage of our total ICT business revenues, service revenues accounted for 95% and 96% in the first half of 2011 and 2010, respectively.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php2,744 million in the first half of 2011, an increase of Php242 million, or 10%, from Php2,502 million in the same period in 2010. Dollar revenues increased by 15% offset by the appreciation of the Philippine peso to the U.S. dollar by 5%. Knowledge processing solutions business revenues accounted for 51% and 47% of total service revenues of our ICT business in the first half of 2011 and 2010, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php144 million, or 9%, to Php1,382 million in the first half of 2011 from Php1,526 million in the same period in 2010 primarily due to lower dollar-denominated revenues by 5% and the effect of the appreciation of the Philippine peso to the U.S. dollar, partially offset by higher domestic sales by 12%. In total, we own and operate 5,986 seats with an average of 3,610 customer service representatives, or CSRs, in the first half of 2011, as compared with 7,168 seats with an average of 4,671 CSRs in the same period in 2010. SPi CRM had six and seven customer relationship management sites as at June 30, 2011 and 2010, respectively. Customer relationship management business revenues accounted for 25% and 29% of total service revenues of our ICT business in the first half of 2011 and 2010, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business decreased by Php51 million, or 10%, to Php469 million in the first half of 2011 from Php520 million in the same period in 2010. On April 1, 2011, ePLDT sold its entire 75% stake in Digital Paradise which resulted in the cessation of consolidation of Digital Paradise effective April 1, 2011. This was partially offset by the introduction of a new game and the strong performance of existing major games, higher sales from retail and desk printing transactions, as well as the addition of new clients. Our internet and online gaming business revenues accounted for 9% and 10% of total service revenues of our ICT business in the first half of 2011 and 2010, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*™, which provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls, and other data services. Our data center contributed revenues of Php820 million in the first half of 2011, an increase of Php106 million, or 15%, from Php714 million in the same period in 2010 primarily due to an increase in co-location or rental and managed service revenues, and regional sales of a branded software. Our data center business revenues accounted for 15% and 14% of total service revenues of our ICT business in the first half of 2011 and 2010, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. Non-service revenues generated by our ICT business increased by Php21 million, or 9%, to Php256 million in the first half of 2011 from Php235 million in the same period in 2010 primarily due to the higher revenues from sales of software licenses.

Expenses

Expenses associated with our ICT business totaled Php5,149 million in the first half of 2011, a decrease of Php128 million, or 2%, as compared with Php5,277 million in the same period in 2010, primarily due to lower expenses related to amortization of intangible assets, asset impairment, compensation and employee benefits, rent, communication, training and travel, repairs and maintenance, and other expenses, partially offset by higher expenses related to professional and other contracted services, and cost of sales. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 91% and 96% in the first half of 2011 and 2010, respectively.

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

					Increase (Decrease)	
	2011	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Compensation and employee benefits[1]	Php3,004	58	Php3,024	57	(Php20)	(1)
Depreciation and amortization	371	7	377	7	(6)	(2)
Repairs and maintenance	354	7	366	7	(12)	(3)
Rent	332	6	349	7	(17)	(5)
Cost of sales	306	6	284	5	22	8
Professional and other contracted services	282	6	254	5	28	11
Communication, training and travel	207	4	222	4	(15)	(7)
Amortization of intangible assets	83	2	131	2	(48)	(37)
Taxes and licenses	42	1	51	1	(9)	(18)
Selling and promotions	42	1	50	1	(8)	(16)
Insurance and security services	39	1	37	1	2	5
Asset impairment	13	–	38	1	(25)	(66)
Other expenses	74	1	94	2	(20)	(21)
Total	Php5,149	100	Php5,277	100	(Php128)	(2)

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

Compensation and employee benefits decreased by Php20 million, or 1%, to Php3,004 million mainly due to a decline in MRP costs, partially offset by higher salaries and benefits, pension benefits and LTIP. ePLDT and its subsidiaries' employee headcount increased by 592, or 4%, to 16,848 in the first half of 2011 as compared with 16,256 in the same period in 2010.

Depreciation and amortization decreased by Php6 million, or 2%, to Php371 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions and internet and online gaming businesses on account of fully depreciated assets and cessation of consolidation of Digital Paradise, partially offset by higher depreciation in relation to our data center expansion.

Repairs and maintenance expenses decreased by Php12 million, or 3%, to Php354 million primarily due to decrease in buildings repairs and maintenance costs and site facilities particularly from our customer relationship management business, partially offset by higher IT software repairs and maintenance costs.

Rent expenses decreased by Php17 million, or 5%, to Php332 million primarily due to lower office building charges.

Cost of sales increased by Php22 million, or 8%, to Php306 million primarily due to the higher volume of sales of software licenses and hardware products.

Professional and other contracted services increased by Php28 million, or 11%, to Php282 million primarily due to higher consultancy fees, contracted service fees, legal fees and other professional fees.

Communication, training and travel expenses decreased by Php15 million, or 7%, to Php207 million primarily due to lower local and foreign training and travel expenses, courier charges and fuel consumption, partially offset by higher communication charges incurred by our customer relationship management and knowledge processing solutions businesses. Moreover, our data center business incurred lower trunkline charges in the first half of 2011.

Amortization of intangible assets decreased by Php48 million, or 37%, to Php83 million due to the full impairment of intangible assets related to CyMed and SPi in December 2010.

Taxes and licenses decreased by Php9 million, or 18%, to Php42 million primarily due to lower business-related taxes.

Selling and promotion expenses decreased by Php8 million, or 16%, to Php42 million mainly due to our gaming business' lower promotional expenses due to prioritization of spending on profitable games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Insurance and security services increased by Php2 million, or 5%, to Php39 million primarily due to higher security services and insurance premiums.

Asset impairment decreased by Php25 million, or 66%, to Php13 million primarily due to customer relationship management's asset impairment of unutilized business tax benefits.

Other expenses decreased by Php20 million, or 21%, to Php74 million mainly due to lower various business and ICT operational-related costs.

Other Income

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

	2011	2010	Change Amount	Change %
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php102	Php97	Php5	5
Interest income	21	16	5	31
Foreign exchange losses – net	(3)	(5)	2	(40)
Financing costs	(29)	(88)	59	(67)
Gains on derivative financial instruments – net	–	1	(1)	(100)
Others	105	45	60	133
Total	Php196	Php66	Php130	197

Our ICT business' other income amounted to Php196 million in the first half of 2011, an increase of Php130 million, or 197%, from Php66 million in the same period in 2010 primarily due to the combined effects of the following: (i) an increase in other income by Php60 million mainly due to gain on sale of Digital Paradise and reversal of prior year's provision by our data center business, partially offset by the lower gain on the disposal of fixed assets in the first half of 2011; (ii) a decrease in financing costs by Php59 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (iii) an increase in equity share in net earnings of associates by Php5 million; (iv) an increase in interest income of Php5 million due to increase in short-term placements and bank deposits; (v) net decrease in foreign exchange losses by Php2 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in the first half of 2011; and (vi) net gain on derivative financial instruments by Php1 million in the first half of 2010.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php49 million in the first half of 2011 as against a benefit from income tax of Php19 million in the same period in 2010 primarily due to higher taxable income.

Net Income

Our ICT business registered a net income of Php669 million in the first half of 2011 from Php305 million in the same period in 2010 mainly as a result of an increase in ICT revenues by Php174 million, an increase in other income by Php130 million and a decrease in ICT-related expenses by Php128 million, partially offset by an increase in provision for income tax by Php68 million.

EBITDA

Our ICT business' EBITDA increased by Php223 million, or 29%, to Php979 million in the first half of 2011 from Php756 million in the same period in 2010 primarily due to higher service revenues, and lower cash operating expenses particularly compensation and employee benefits, rent, communication, training and travel, repairs and maintenance, and other expenses.

Core Income

Our ICT business' core income amounted to Php656 million in the first half of 2011, an increase of Php312 million, or 91%, as compared with Php344 million in the same period in 2010 mainly as a result of increases in ICT revenues and other income, as well as lower ICT-related expenses, partially offset by an increase in provision for income tax.

Liquidity and Capital Resources

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

	Six Months Ended June 30,	
	2011	2010
(in millions)	(Unaudited)	
Cash Flows		
Net cash provided by operating activities	Php34,629	Php31,848
Net cash used in investing activities	6,298	5,773
Capital expenditures	*6,335*	*9,700*
Net cash used in financing activities	26,285	35,595
Net increase (decrease) in cash and cash equivalents	1,980	(9,441)

	June 30, 2011	December 31, 2010
(in millions)	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php71,710	Php75,879
Obligations under finance lease	7	9
	71,717	75,888
Current portion of interest-bearing financial liabilities:		
Notes payable	651	–
Long-term debt maturing within one year	21,792	13,767
Obligations under finance lease maturing within one year	6	34
	22,449	13,801
Total interest-bearing financial liabilities	94,166	89,689
Total equity attributable to equity holders of PLDT	91,292	97,069
	Php185,458	Php186,758
Other Selected Financial Data		
Total assets	Php271,484	Php277,815
Property, plant and equipment	156,289	163,184
Cash and cash equivalents	38,658	36,678
Short-term investments	600	669

Our consolidated cash and cash equivalents and short-term investments totaled Php39,258 million as at June 30, 2011. Principal sources of consolidated cash and cash equivalents in the first half of 2011 were cash flows from operating activities amounting to Php34,629 million, proceeds from availment of long-term debt and notes payable of Php11,949 million, interest received of Php653 million and dividends received of Php216 million. These funds were used principally for: (1) dividend payments of Php26,833 million; (2) debt principal and interest payments of Php7,362 million and Php2,552 million, respectively; (3) capital outlays of Php6,335 million; and (4) settlements of derivative financial instruments of Php319 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php29,576 million as at June 30, 2010. Principal sources of consolidated cash and cash equivalents in the first half of 2010 were cash flows from operating activities amounting to Php31,848 million, net proceeds from maturity of short-term investments of Php3,134 million, proceeds from availment of long-term debt of Php2,246 million and interest received of Php665 million. These funds were used principally for: (1) dividend payments of Php26,330 million; (2) capital outlays of Php9,700 million; (3) debt principal and interest payments of Php7,929 million and Php2,929 million, respectively; and (4) settlements of derivative financial instruments of Php458 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php2,781 million, or 9%, to Php34,629 million in the first half of 2011 from Php31,848 million in the same period in 2010 primarily due to LTIP settlement in March 2010 and higher collection of receivables partially offset by higher settlement of various payables.

Cash flows provided by operating activities of our fixed line business increased by Php2,319 million, or 26%, to Php11,177 million in the first half of 2011 from Php8,858 million in the same period in 2010 primarily due to LTIP settlement in March 2010, lower level of settlement of accounts payable and other liabilities, partially offset by higher level of outstanding receivables. Cash flows provided by operating activities of our ICT business also increased by Php658 million, or 117%, to Php1,219 million in the first half of 2011 from Php561 million in the same period in 2010 primarily due to settlement of LTIP in March 2010 and higher collection of receivables, partially offset by the higher level of settlement of accounts payable, and other liabilities in the first half of 2011. On the other hand, cash flows from operating activities of our wireless business decreased by Php202 million, or 1%, to Php22,237 million in the first half of 2011 from Php22,439 million in the same period in 2010 primarily due to a higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of receivables and LTIP settlement in March 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php6,298 million in the first half of 2011, an increase of Php525 million, or 9%, as compared with Php5,773 million in the same period in 2010 primarily due to the combined effects of the following: (1) the decrease in capital expenditures by Php3,365 million; (2) the lower net proceeds from the maturity of short-term investments by Php3,118 million; (3) increase in payment for contingent consideration arising from business acquisitions by Php810 million; and (4) lower interest received by Php12 million.

Our consolidated capital expenditures in the first half of 2011 totaled Php6,335 million, a decrease of Php3,365 million, or 35%, as compared with Php9,700 million in the same period in 2010 primarily due to the decrease in Smart's and PLDT's capital spending. PLDT's capital spending of Php4,139 million in the first half of 2011 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php1,835 million in the first half of 2011 was used primarily to modernize and expand its 2G, 3G and fixed wireless broadband and mobile broadband networks. ePLDT and its subsidiaries' capital spending of Php311 million in the first half of 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php50 million represented other subsidiaries' capital spending.

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

Dividends received in the first half of 2011 amounted to Php216 million, a decrease of Php5 million, or 2%, as compared with Php221 million in the same period in 2010. The dividends received in the first half of 2011 were from Meralco and Philweb Corporation, while the dividends received in the same period in 2010 were from Meralco and ePDS, Inc.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php26,285 million in the first half of 2011, a decrease of Php9,310 million, or 26%, as compared with Php35,595 million in the same period in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php9,703 million; (2) net decrease in repayments of long-term debt and notes payable by Php567 million; (3) lower interest payments by Php377 million; (4) lower settlements of derivative financial instruments by Php139 million; (5) higher cash dividend payments by Php503 million; and (6) lower availment of capital expenditures under long-term financing by Php1,082 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the six months ended June 30, 2011 amounted to Php11,300 million and Php649 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 Php7,362 million and Php2,552 million, respectively, in the first half of 2011.

Our consolidated long-term debt increased by Php3,856 million, or 4%, to Php93,502 million in the first half of 2011 from Php89,646 million on December 31, 2010, largely due to drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php43.36 as at June 30, 2011 from Php43.81 as at December 31, 2010. The long-term debt levels of PLDT and Smart increased by 7% and 1% to Php52,582 million and Php40,820 million, respectively, as at June 30, 2011 as compared with December 31, 2010.

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

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

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

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

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

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

On June 6, 2011, Smart signed a US$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with Bank of Tokyo-Mitsubishi UFJ, Ltd. as Lender. The loan is payable over five years in eight equal semi-annual installments with the first installment on the eighteenth month from signing date. No availment has been made on this facility as at June 30, 2011.

On June 10, 2011, Smart signed a US$49 million five-year loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as Original Lender, Arranger and Facility Agent which will subsequently assign its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No availment has been made on this facility as at June 30, 2011.

Approximately Php56,329 million principal amount of our consolidated outstanding long-term debt as at June 30, 2011 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php33,806 million is attributable to Smart, Php22,424 million to PLDT, and the remainder to ePLDT's subsidiaries.

For a complete discussion of our long-term debt, see *Note 19 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

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

Please see *Note 19 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying unaudited consolidated financial statements for a detailed discussion of our debt covenants.

Financing Requirements

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

Consolidated cash dividend payments in the first half of 2011 amounted to Php26,833 million as compared with Php26,330 million paid to shareholders in the same period in 2010. On August 2, 2011, we declared a regular cash dividend of Php78 per share, 70% payout of our 2011 core EPS. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our 2010 core EPS.

Off-Statement of Financial Position Arrangements

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

Equity Financing

Through our subscriber investment plan, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise approximately Php1 million each in the first half of 2011 and 2010.

As part of our goal to maximize returns to our shareholders, we obtained Board of Directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at June 30, 2011 and December 31, 2010. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the six months ended June 30, 2011 and 2010. Please see to *Note 8 – Earnings Per Common Share*, *Note 18 – Equity* and *Note 26 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at June 30, 2011 and 2010, see *Note 26 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php364 million and Php1,145 million as at June 30, 2011 and December 31, 2010, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

For further discussions of these risks, see *Note 26 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at June 30, 2011 and March 31, 2011:

	Fair Values	
	June 30, 2011	**March 31, 2011**
(in millions)	**(Unaudited)**	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php78	Php79
Unlisted equity securities	68	69
Investments in debt securities	509	496
Derivative financial assets	–	238
Advances and refundable deposits – net of current portion	924	917
Total noncurrent financial assets	1,579	1,799
Current Financial Assets		
Cash and cash equivalents	38,658	55,969
Short-term investments	600	644
Trade and other receivables – net	14,922	15,031
Derivative financial assets	267	24
Current portion of advances and refundable deposits	16	14
Total current financial assets	54,463	71,682
Total Financial Assets	**Php56,042**	**Php73,481**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php76,759	Php80,820
Derivative financial liabilities	1,980	3,154
Customers' deposits	1,596	1,599
Deferred credits and other noncurrent liabilities	10,211	9,767
Total noncurrent financial liabilities	90,546	95,340
Current Financial Liabilities		
Accounts payable	19,697	21,915
Accrued expenses and other current liabilities	28,476	29,579
Interest-bearing financial liabilities	22,449	14,167
Derivative financial liabilities	892	–
Dividends payable	2,191	28,958
Total current financial liabilities	73,705	94,619
Total Financial Liabilities	**Php164,251**	**Php189,959**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the six months ended June 30, 2011 and for the three months ended March 31, 2011:

	June 30, 2011	**March 31, 2011**
(in millions)	**(Unaudited)**	
Profit and Loss		
Interest income	Php645	Php321
Gains on derivative financial instruments – net	484	422
Accretion on financial liabilities – net	(555)	(291)
Interest on loans and other related items	(2,866)	(1,358)
Other Comprehensive Income		
Net gains on available-for-sale financial assets – net of tax	1	2
	(Php2,291)	**(Php904)**

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 each of the first half of 2011 and 2010 was 4.3%. Moving forward, we expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

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

On March 29, 2011, the Board of Directors of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digitel comprising of: (i) 3.28 billion common shares in Digitel, representing approximately 51.55% of the issued common stock; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010 (the "Assets"). Digitel operates a fixed line business in certain parts of the country and is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor has completed its review and concluded that the acquisition of the Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

PLDT further expects to announce its intention to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the other shareholders of Digitel. Under the contemplated tender offer, it is anticipated that PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of Digitel shareholders. The contemplated tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel. The 29.65 million new PLDT common shares will represent up to approximately 13.7% of the enlarged issued and outstanding common stock of PLDT.

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

The completion of the acquisition is subject to the procurement of certain regulatory and other approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock; (ii) the confirmation by the Philippine SEC of the valuation of the Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets and the Digitel shares which shall have been tendered pursuant to the tender offer. In addition, the sale of the Digitel shares owned by the seller-parties is subject to the consent of certain creditors of Digitel and DMPI. On June 14, 2011, the stockholders' approval mentioned above was obtained.

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

On June 30, 2011, the parties agreed to extend the closing date of the transaction from June 30, 2011 to July 30, 2011. On July 30, 2011, the parties agreed to extend anew the closing date of the transaction from July 30, 2011 to August 26, 2011. The parties are still awaiting the approvals of various regulatory bodies.

PLDT's Creation of Voting Preferred Shares

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

A special meeting of stockholders will be held on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments.

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

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 23 –Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

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

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php8,727	Php2,087	Php789	Php219	Php5,632
Corporate subscribers	8,663	1,422	1,570	617	5,054
Foreign administrations	4,450	1,682	1,196	629	942
Domestic carriers	1,562	139	173	201	1,049
Dealers, agents and others	4,037	3,035	48	451	503
Total	Php27,439	Php8,365	Php3,776	Php2,117	Php13,181
Less: Allowance for doubtful accounts	12,517				
Total Receivables - net	**Php**14,922				

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: Anabelle Lim-Chua
ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title: June cheryl cabal
JUNE CHERYL A. CABAL
First Vice President and Controller
(Principal Accounting Officer)

Date: August 2, 2011